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No. 05-

IN THE

Supreme Court of the United States

EBAY INC. AND HALF.COM., INC.,

Petitioners,

v.

MERCEXCHANGE, L.L.C.,

Respondent.

Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

Whether the Federal Circuit erred in setting forth a general rule in patent cases that a district court must, absent exceptional circumstances, issue a permanent injunction after a finding of infringement.

PARTIES TO THE PROCEEDINGS

In addition to the parties named in the caption, ReturnBuy, Inc. was initially a defendant in this action. Prior to trial, ReturnBuy, Inc. filed for bankruptcy protection and settled with respondent MercExchange, L.L.C.

Petitioner eBay Inc. has no parent corporation, and no other publicly held corporation owns more than 10% of its stock. Petitioner Half.com, Inc. is a wholly owned subsidiary of Petitioner eBay Inc., which is a publicly held corporation.

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PETITION FOR CERTIORARI

Petitioners eBay Inc. and Half.com, Inc. ("eBay") respectfully seek a writ of certiorari to the United States Court of Appeals for the Federal Circuit.

OPINIONS BELOW

The opinion of the Federal Circuit (App. 1a-28a) was entered on March 16, 2005, and is reported at 401 F.3d 1323 (Fed. Cir. 2005). The order denying the Petition for Panel Rehearing and Rehearing en Banc (App. 77a-78a) was entered on April 26, 2005 and is unreported. The decision of the district court (App. 29a-74a) was entered on August 6, 2003, and is reported at 275 F. Supp. 2d 695 (E.D. Va. 2003).

JURISDICTION

The court of appeals entered its judgment in this case on March 16, 2005 and denied the Petition for Rehearing en Banc on April 26, 2005. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

STATUTORY PROVISION INVOLVED

Section 283 of the Patent Act, 35 U.S.C. § 283, provides that:

> The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.

STATEMENT OF THE CASE

This case presents an important question of federal patent law with significant implications for the Nation's economy.

A permanent injunction in the context of patent law is a potent remedy. The enjoined defendant is faced with tough choices: redesign its product or the product's functionality to eliminate reliance on the patent, negotiate a license on possibly onerous terms, or cease production or use altogether. Recognizing that this powerful and coercive remedy is not always appropriate, Congress has expressly authorized district courts to use their equitable discretion in granting injunctions in patent cases. In particular, § 283 of the Patent Act provides that an injunction may issue to prevent future violations only when the relief comports with the principles of equity. 35 U.S.C. § 283.

The Federal Circuit has decided to ignore this rule. And in its place, the court of appeals has authored its own variant of § 283, replacing equitable discretion with a virtually irrebuttable presumption that permanent injunctions will issue absent the exceptional circumstance where injunctive relief would pose a harm to the public interest by endangering the public health.

The consequences of this rule are clear. Injunctions will issue even when, as in this case, the district court has decided that the balance of the equities requires otherwise. Plaintiffs who will suffer no irreparable injury, because their future losses are fully compensable by ordinary money damages, nevertheless would receive a patent injunction. Indeed, the Federal Circuit's rule compels the grant of an injunction even if a trial court determines that an injunction would cause more hardship to the defendant than the plaintiff. Moreover, denials of permanent injunctions are no longer reviewed for abuse of a court's equitable discretion; courts must instead offer a "persuasive reason" to the reviewing court showing why its case "is sufficiently exceptional to justify the denial of a permanent injunction." App. 26a.

Such a drastic restriction on equity is fundamentally incompatible with this Court's precedents, which have long taught that the federal courts retain their equitable powers

absent a contrary indication from Congress. *Amoco Prod. Co.* v. *Village of Gambell, Alaska*, 480 U.S. 531 (1987); *Weinberger* v. *Romero-Barcelo*, 456 U.S. 305 (1982); *Hecht Co.* v. *Bowles*, 321 U.S. 321 (1944). Given that the clear language of § 283 indisputably imbues districts courts with discretion, and does not rely upon any wooden presumptions, these rulings cast serious doubt on the holding below and thus warrant this Court's further review.

In light of the dramatic rise in patent litigation, the Federal Circuit's automatic injunction rule will have a significant and detrimental impact on innovating companies. Between 1994 and 2004, the district courts have seen a fully 90 percent increase in the number of filed patent cases. See L. Mecham, Admin. Office of the U.S. Courts, Archive of Annual Reports, *Judicial Business of the United States Courts* tbl. C-2A (1997-2004), http://www.uscourts.gov/judbususc/judbus.html. Given the Federal Circuit's rule, permanent injunctions will issue in virtually every case where infringement is found, even if § 283 and equitable principles counsel otherwise.

By transforming an extraordinary remedy into one that issues by default, the Federal Circuit has imposed substantial and unwarranted costs on innovating companies. Injunctions subject defendants to all the civil contempt powers that a federal court has to coerce compliance. This can present a grave risk to companies in the patent context, where the defendant's sunk costs may be substantial and the boundary lines of a patent may not be clear. Indeed, as the Federal Circuit itself acknowledged, it is not unusual for there to be numerous post-trial disputes as to the definition of a particular patent. App. 27a. Owing to these uncertain liabilities and unclear patent definitions, a permanent injunction produces tremendous leverage for the plaintiff in ensuing license negotiations. By directing courts to confer permanent injunctions even when § 283 and equitable principles may counsel otherwise, the Federal Circuit's "general rule" transforms injunctive relief from a remedy designed "to

protect a patent against infringement" into "a club to be wielded by a patentee to enhance his negotiating stance." *Foster* v. *American Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974).

These *in terrorem* license fees are especially troubling given the rise of "patent assertion" companies, which buy patents not to practice an invention, but to assert infringement claims against other companies. As the district court found, entities such as MercExchange exist for no other purpose but to threaten infringement suits in hopes of securing a profitable license through litigation or settlement. App. 54a. These firms do not practice their often purchased inventions; they litigate. To such companies, the permanent injunction is not a remedy for patent protection, but instead serves as a strategic means to extract a higher licensing fee. It also supplies a mechanism for endless litigation over the meaning of the injunction, which serves as a serious drain on limited judicial and litigant resources. It is therefore ironic that the sole exception to the Federal Circuit's *per se* rule concerns harm to the public interest, albeit only in the narrow sphere of public health. By commanding district courts to issue permanent injunctions as a matter of course, the Federal Circuit's rule will impose tremendous costs on innovation. In light of the pressing importance of this issue, this Court should review the Federal Circuit's decision.

A. Statutory Background

Rooted in the Constitution, Art. I, § 8, cl. 8, patent protection has long been essential to the development of innovation. But the rights attendant to patent ownership by no means have been absolute. Rather, the patent laws, including their remedial scheme, reflect a careful balancing of countervailing interests. In particular, the remedies available for patent infringement suits aim to strike a balance between compensation and overdeterrence. While the value of a patent depends on effective enforcement, setting the penalties for infringement too high will deter companies from

innovating for fear of crippling liability. As Justice Stevens has observed, "[f]ederal interests are threatened, not only by inadequate protection for patentees, but also when overprotection may have an adverse impact on a competitive economy." *Florida Prepaid Postsecondary Educ. Expense Bd.* v. *College Sav. Bank*, 527 U.S. 627, 650 (1999) (Stevens, J., dissenting) (citing *Bonito Boats, Inc.* v. *Thunder Craft Boats, Inc.*, 489 U.S. 141, 162-63 (1989)).

Congress's several modifications to the patent law's remedial scheme reflect this balance—a balance which the Federal Circuit's *per se* rule upsets. The First Congress's Patent Act of 1790 did not contain the express authority for federal courts to grant injunctive relief. It was not until 1819 that Congress conferred equitable jurisdiction in patent cases, using language that remains nearly untouched to this day. Act of Feb. 15, 1819, ch. 19, 3 Stat. 481, 481-82 (granting federal courts "upon any bill in equity . . . authority to grant injunctions, according to the course and principles of courts of equity . . . on such terms and conditions as the said court may deem fit and reasonable"). Similarly, while the Patent Act of 1870 added a provision permitting the recovery of a defendant's profits, Act of July 8, 1870, ch. 230, § 55, 16 Stat. 198, 206, Congress eliminated that form of equitable relief 76 years later. Act of Aug. 1, 1946, ch. 726, 60 Stat. 778. Aside from these changes, the remedial scheme under the Patent Act has remained settled.

Courts can select from a range of remedies in enforcing the patent laws. Upon a finding of infringement, a court "shall award the claimant damages adequate to compensate for the infringement," which recovery shall be "in no event less than a reasonable royalty for the use made of the invention by the infringer." 35 U.S.C. § 284. Patentees that actually practice their patent can seek lost sales and profits resulting from the infringement. See *Rite-Hite Corp.* v. *Kelley Co.*, 56 F.3d 1538, 1544 (Fed. Cir. 1995) (en banc). In contrast, patentees like MercExchange that do not make use of their patent can

receive "reasonable royalt[ies]," which are calculated according to a "hypothetical negotiation between the patentee and the infringer at the time before the infringing activity began." *Integra Lifesciences I, Ltd.* v. *Merck KgaA*, 331 F.3d 860, 869 (Fed. Cir. 2003), *vacated on other grounds*, No. 03-1237, 2005 WL 1383624 (U.S. June 13, 2005).

In addition to compensatory damages, a court can issue punitive or "enhanced" damages for willful infringement of a patent. 35 U.S.C. § 284 ("the court may increase the damages up to three times the amount found or assessed"); *Sensonics, Inc.* v. *Aerosonic Corp.*, 81 F.3d 1566, 1573 (Fed. Cir. 1996). Moreover, in exceptional cases, a court may award attorney's fees to the prevailing party. 35 U.S.C. § 285.

Like the enhanced damages and the fee-shifting provision, the statute provides that courts have the discretion, but are not obligated, to award injunctive relief, either preliminarily or at the end of a trial. *Id.* § 283. Under § 283, courts are directed to consider the principles of equity and not mechanically to issue the "extraordinary remedy of [an] injunction." *Romero-Barcelo*, 456 U.S. at 312. In light of the potentially crippling consequences to the defendant of an injunction, Congress's choice to accord district courts with the equitable discretion to grant or deny injunctive relief is eminently sensible.

B. The Underlying Dispute

Petitioner eBay operates a website on the Internet that allows sellers to list, and buyers to search for and purchase, goods either through an auction-style format or at a fixed price. Petitioner Half.com, a wholly-owned subsidiary of eBay, operates a website on the Internet that allows sellers to list, and buyers to search for and purchase, goods at a fixed price and that formerly provided users with a price comparison for certain items offered for sale on other websites. In particular, as the court of appeals observed, "[a]t issue in this case is the fixed-price purchasing feature of eBay's website, which allows customers to purchase items

that are listed on eBay's website for a fixed, listed price." App. 2a.

The three patents at issue in this litigation were assigned to respondent MercExchange, L.L.C. ("MercExchange"), which, as the district court found, "does not practice its inventions and exists merely to license its patented technology to others." App. 54a. The three patents include U.S. Patent Nos. 5,845,265 ("the '265 patent"), 6,085,176 ("the '176 patent"), and 6,202,051 ("the '051 patent"). *Id.* at 1a. MercExchange filed a suit in the United States District Court for the Eastern District of Virginia, alleging infringement of all three patents. MercExchange sued eBay, Half.com, and ReturnBuy, Inc., ("ReturnBuy"), which owned and operated an Internet website that directed its customers to eBay's website where they could purchase ReturnBuy's goods.[1]

The district court granted in part and denied in part eBay's motion for summary judgment as to the '051 patent, leaving the '265 and '176 patents for trial. At the end of the trial, the jury concluded that eBay did not overcome the presumption that the '265 and '176 patents were valid and further determined that those patents had been infringed. In particular, the jury found that eBay had willfully infringed the '265 patent and induced ReturnBuy to do the same. Further, the jury concluded that Half.com had willfully infringed the '265 and the '176 patent. The jury held eBay liable for $10.5 million for infringement of the '265 patent and $5.5 million for inducement of ReturnBuy. Half.com was found liable for $19 million for infringing the '176 patent and the '265 patent.

After the close of the trial, the district court considered various motions by the parties, including eBay's motion for a judgment as a matter of law and MercExchange's motion for a permanent injunction.

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[1] Prior to the trial, ReturnBuy filed for bankruptcy protection and executed a settlement with MercExchange.

C. The District Court's Opinion

The district court declined to set aside the jury verdict against eBay for inducement of ReturnBuy, and denied eBay's motion to set aside the remaining findings of infringement. App. 51a. With respect to the '265 patent, however, the district court reduced the jury award by $5.5 million, concluding that the jury's award for both direct infringement and inducement amounted to a double recovery. *Id.* Despite the finding of willfulness by the jury, the court declined to award enhanced damages or attorneys' fees. The district court also rejected MercExchange's motion for a permanent injunction. The court noted that while "the grant of injunctive relief against the infringer is considered the norm . . . the decision to grant or deny injunctive relief remains within discretion of the trial judge." *Id.* at 52a Accordingly, the court analyzed whether an injunction was appropriate using the traditional four-part test.

> "Issuance of injunctive relief against [the defendants] is governed by traditional equitable principles, which require consideration of (i) whether the plaintiff would face irreparable injury if the injunction did not issue, (ii) whether the plaintiff has an adequate remedy at law, (iii) whether granting the injunction is in the public interest, and (iv) whether the balance of the hardships tips in the plaintiff's favor."

Id. at 53a (alteration in original) (quoting *Odetics, Inc.* v. *Storage Tech. Corp.*, 14 F. Supp. 2d 785, 794 (E.D. Va. 1998)).

The court found that MercExchange would not suffer irreparable injury in the absence of a permanent injunction. In arriving at this conclusion, the court observed that the

> evidence of the plaintiff's willingness to license its patents, its lack of commercial activity in practicing the patents, and its comments to the media as to its intent with respect to enforcement of its patent rights, are

> sufficient to rebut the presumption that it will suffer irreparable harm if an injunction does not issue.

App. 55a. Moreover, the district court noted that despite MercExchange's claim that it would suffer irreparable injury without an injunction, it had not moved for a preliminary injunction. "This fact, while certainly not dispositive of the issue, lends additional weight in support of the defendants' arguments that the plaintiff will not be irreparably harmed absent an injunction." *Id.*

With respect to whether there was an adequate remedy at law, the district court first observed that "evidence showing that the patent holder is willing to license his patent rights 'suggests that any injury suffered by [the patent holder] would be compensable in damages assessed as part of the final judgment in the case.'" App. 56a (alteration in original) (quoting *High Tech Med. Instrumentation, Inc.* v. *New Image Indus., Inc.*, 49 F.3d 1551, 1557 (Fed. Cir. 1995)). While the court recognized that money damages ordinarily would be considered an inadequate remedy for any continuing infringement, it concluded that it was dealing with "an atypical case" and found that MercExchange did have an adequate remedy at law. *Id.*

The court noted that the public interest weighed in favor of both eBay and MercExchange. Although the court recognized that there was a public interest in the integrity of the patent system, it doubted the utility of injunctive relief when the patentee did not practice its inventions. App. 58a.

Lastly, the court concluded that the balance of hardships weighed "slightly" in favor of eBay. The court noted that "[w]hile it is important to respect the rights of the patent holder, in this case, the plaintiff exists solely to license its patents or sue to enforce its patents, and not to develop or commercialize them." App. 58a. Noting that it had the authority to punish any continuing infringement with enhanced damages, and that any injunction would lead to

additional costly and burdensome litigation both to the parties and more importantly to the court, the district court concluded that a balancing of the hardships tipped in eBay's favor. *Id.* at 58a-59a.

Accordingly, the district court denied MercExchange's motion for a permanent injunction. App. 59a.

In denying eBay and Half.com's motions for a new trial and judgment as a matter of law, the district court also held, *inter alia*, that providing the terms "trusted network" and "legal ownership" to the jury without the explicit construction of the patent terms adopted by the district court before trial was not erroneous. App. 39a-40a; see also *Markman* v. *Westview Instruments, Inc.*, 517 U.S. 370, 372 (1996) (holding that the construction of a patent's claims "is exclusively within the province of the court").

eBay appealed and MercExchange cross-appealed the district court's order to the Federal Circuit.

D. The Federal Circuit's Opinion

The court of appeals concluded that the claims with respect to the '176 patent were invalid and accordingly directed judgment for Half.com, thereby setting aside the jury's associated award of $4.5 million. App. 3a. Further, the court held that there was no substantial evidence to support the charge that eBay induced ReturnBuy to infringe the '265 patent, and therefore reversed the district court's judgment in that regard. *Id.*

By contrast, the court found that substantial evidence supported a finding of infringement and validity with respect to the remainder of the '265 patent claims. With respect to remedies, the court of appeals held that the district court did not abuse its discretion in denying MercExchange enhanced damages and attorneys' fees. But, the court reversed the district court's determination that a permanent injunction was not warranted. The court of appeals held that "[b]ecause the

'right to exclude recognized in a patent is but the essence of the concept of property,' the general rule is that a permanent injunction will issue once infringement and validity have been adjudged." App. 26a (quoting *Richardson* v. *Suzuki Motor Co.*, 868 F.2d 1226, 1246-47 (Fed. Cir. 1989)). In light of this general rule, the court of appeals concluded that "the district court did not provide any persuasive reason to believe this case is sufficiently exceptional to justify the denial of a permanent injunction." *Id.*

The court of appeals rejected the reasons the district court cited to support its denial of the injunction. First, the Federal Circuit stated that "[i]n its post-trial order, the district court stated that the public interest favors denial of a permanent injunction in view of a 'growing concern over the issuance of business-method patents.'" App. 26a (quoting App. 57a). The court reasoned that "[a] general concern regarding business-method patents, however, is not the type of important public need that justifies the unusual step of denying injunctive relief." *Id.* Second, the court took issue with the district court's finding that granting an injunction would result in more litigation, reasoning that continuing disputes are not unusual in patent cases. *Id.* at 27a. The court of appeals also held that the "fact that MercExchange may have expressed willingness to license its patents should not, however, deprive it of the *right to an injunction* to which it would otherwise be *entitled*." *Id.* (emphasis added). Lastly, the court of appeals held that nothing turned on MercExchange's choice not to seek a preliminary injunction because preliminary and permanent injunctions are different, noting that the two types of relief have different requirements. *Id.* at 27a-28a.

The court recognized a narrow exception to its categorical rule requiring injunctive relief. "To be sure, 'courts have in rare instances exercised their discretion to deny injunctive relief in order to protect the public interest.'" App. 26a (quoting *Rite-Hite Corp.*, 56 F.3d at 1547). "Thus we have

stated that a court may decline to enter an injunction when 'a patentee's failure to practice the planned invention frustrates an important public need for the invention,' such as the need to use an invention to protect public health." *Id.* (quoting *Rite-Hite Corp.*, 56 F.3d at 1547). According to the Federal Circuit's holding, absent public health risks, the ordinary rules governing equitable relief do not apply to patent law.

The Federal Circuit also affirmed the district court's decision not to instruct the jury in accord with the claim construction adopted by the district court after its *Markman* hearing. Thus, the court upheld the instructions requiring the jury to determine without guidance what constituted a "trusted network" and what is necessary to "transfer *legal* ownership." App. 8a ("it was not necessary for the court to include excerpts from its *Markman* order in the jury instructions").

The Federal Circuit denied eBay's petition for rehearing en banc without opinion. App. 77a-78a. On May 11, 2005, however, it granted eBay's motion for a stay of the mandate pending the outcome of eBay's petition to this Court for a writ of certiorari. *Id.* at 75a-76a.

REASONS FOR GRANTING THE PETITION

The Federal Circuit's sweeping holding in this case is a fundamental misconstruction of the law authorizing patent injunctions. It departs from the statute's plain language, which provides that a court "may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable." 35 U.S.C. § 283. The decisions of this Court have forcefully rejected previous efforts to judicially restrict the equitable powers of the federal courts. Given that this error, which goes to the heart of patent enforcement, could undermine the patent law's promotion of

innovation and certainly will lead to protracted and wasteful litigation, review by this Court is necessary.

Moreover, the Federal Circuit's exclusive appellate jurisdiction over patent disputes, 28 U.S.C. § 1295(a)(4), ensures that the issue raised in this case will not be further vetted in the lower courts. Accordingly, this Court is the only forum available to correct the fundamental departure from statutory construction embodied in the holding below.

I. THE FEDERAL CIRCUIT'S PER SE RULE IS FUNDAMENTALLY INCONSISTENT WITH THE PLAIN LANGUAGE OF § 283 AND THIS COURT'S RULINGS.

The prerequisites for the grant of equitable relief have remained largely unchanged for centuries. See *Hecht Co.*, 321 U.S. at 329-30 ("We are dealing here with the requirements of equity practice with a background of several hundred years of history."). Injunctions "should issue only where the intervention of a court of equity 'is essential in order effectually to protect property rights against injuries otherwise irremediable.'" *Romero-Barcelo*, 456 U.S. at 312 (quoting *Cavanaugh* v. *Looney*, 248 U.S. 453, 456 (1919)). "Thus, the usual basis for injunctive relief [is] 'that there exists some cognizable danger of recurrent violation.'" *Rondeau* v. *Mosinee Paper Co.*, 422 U.S. 49, 59 (1975) (quoting *United States* v. *W.T. Grant Co.*, 345 U.S. 629, 633 (1953)).

In deciding whether to issue an injunction, courts have traditionally considered four factors: irreparable injury; inadequacy of legal remedies; balancing of parties' hardships; and, whether an injunction would adversely affect the public interest. *Romero-Barcelo*, 456 U.S. at 312-13. The burden of showing these factors rests with the party seeking the injunction. Cf. *Rondeau*, 422 U.S. at 63 (finding that plaintiffs in securities actions are not "relieved of the burden of establishing the traditional prerequisites of relief."). After

careful consideration of these factors, the district court in this case found that an injunction was unwarranted.

The Federal Circuit has, however, jettisoned the familiar principles of equity in favor of a "general rule" that requires the issuance of a permanent injunction as a matter of course, absent an exceptional circumstance. App. 28a. Although there are scattered Federal Circuit cases that note a court's discretion to grant or deny a permanent injunction, there is a clear pattern of decisions in the Federal Circuit that have stripped away that discretion. See, *e.g.*, *Metabolite Labs., Inc.* v. *Laboratory Corp. of Am. Holdings*, 370 F.3d 1354, 1372 (Fed. Cir. 2004) ("[T]he district court properly granted the injunction because [the defendant] was found to infringe."), *petition for cert. filed*, 73 U.S.L.W. 3298 (U.S. Nov. 3, 2004) (No. 04-607); *Lermer Germany GmbH* v. *Lermer Corp.*, 94 F.3d 1575, 1577 (Fed. Cir. 1996) ("A permanent injunction issues to a party after winning on the merits and is ordinarily granted upon a finding of trademark infringement."); *Richardson* v. *Suzuki Motor Co.*, 868 F.2d 1226, 1247 (Fed. Cir. 1989) ("It is the general rule that an injunction will issue when infringement has been adjudged, absent a sound reason for denying it."); *W.L. Gore & Assocs.* v. *Garlock, Inc.*, 842 F.2d 1275, 1281 (Fed. Cir. 1988) (same); but see *Joy Techs., Inc.* v. *Flakt, Inc.*, 6 F.3d 770, 772 (Fed. Cir. 1993) ("district courts are . . . given broad discretion . . . to determine whether the facts of a case warrant the grant of an injunction"); *Windsurfing Int'l, Inc.* v. *AMF, Inc.*, 782 F.2d 995, 1002 (Fed. Cir. 1986) (same). Indeed, in over two decades of patent cases, the Federal Circuit has not once considered all of the traditional equitable factors—irreparable injury; inadequacy of legal remedies; balancing of parties' hardships; and, whether an injunction would affect adversely the public interest—in deciding whether a permanent injunction was proper.

The consequence of ignoring these prerequisites is the issuance of unnecessary and unwise injunctions. Patentees

who would otherwise be adequately compensated through the payment of money damages would nevertheless enjoy the additional leverage inherent in a permanent injunction. Further, the Federal Circuit's general rule would also compel a district court to close its eyes to potential hardship to the defendant. For instance, the Patent and Trademark Office ("PTO") is authorized to conduct a reexamination of a patent and ultimately reject some or all of the claims associated with that patent. See 35 U.S.C. §§ 303-305.[2] This reexamination can occur at any time during litigation, including after the finding of validity and infringement at the trial court level. A defendant may be subject to a permanent injunction for years

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[2] Patent reexamination is an administrative revocation proceeding, in which any person may request that the PTO revisit its initial finding of patentability. Upon a request for patent reexamination, a PTO examiner preliminarily determines whether a substantial new question of patentability exists. 35 U.S.C. § 303(a). After further examination, the PTO issues the "first office action," in which the patent examiner declares whether or not the patent is valid. The patent owner then has the opportunity to refute the rejections or narrow its claims by amendment. *Id.* § 304; 37 C.F.R. § 1.550. If the PTO ultimately finds that a patentee's claims remain invalid, the agency will issue a "final office action" pursuant to 37 C.F.R. § 1.570, which determination a patentee may challenge before the Board of Patent Appeals. 35 U.S.C. § 306. If the Board affirms the PTO's finding of invalidity, a patentee can appeal to the Federal Circuit or to the United States District Court for the District of Columbia. *Id.* §§ 141, 145. Any determination by the PTO or by the Board of Patent Appeals during reexamination, including claim rejections, is nevertheless *not* a final adjudication on patent validity until the appeals process has concluded. *Id.* § 307(a); *Standard Havens Prods., Inc.* v. *Gencor Indus., Inc.*, 953 F.2d 1360, 1366 n.2 (Fed. Cir. 1991).

Here, subsequent to the district court's final judgment, the PTO granted eBay's request to reexamine each of the three patents at issue in this case. While the Federal Circuit took judicial notice of the fact that reexamination was ordered for all three patents, it later declined to take judicial notice of the PTO's first office action rejecting the claims in the '265 reexamination. At present, all of the claims in all of the patents at issue stand rejected. The PTO reexamination proceeding will continue independently of the instant litigation.

only to have the PTO subsequently conclude that the patentee's claims were invalid *ab initio*. Meanwhile, that defendant may have been forced to redesign its product or, barring that, shut down its business altogether. While the potential hardship imposed upon a defendant could not be more acute, the Federal Circuit's general rule would nevertheless compel a district court to grant a permanent injunction.

Accordingly, plaintiffs in patent cases need no longer demonstrate that the four traditional prerequisites for permanent injunctions weigh in their favor. Nor do plaintiffs need to show that a permanent injunction is necessary to protect against a patent violation. Rather than having a burden at all, plaintiffs who prevail in infringement actions enjoy a virtually irrebuttable presumption that an injunction is appropriate, and it is the defendant that evidently bears the burden of showing that the remedy would be adverse to the public interest.

Not only has the Federal Circuit shifted the burden of showing the need for a permanent injunction, it has effectively revised the applicable standard of review. The Federal Circuit's decision notably omits any mention of the established rule that courts of appeals examine a district court's decision to grant or deny equitable relief for abuse of discretion. See, *e.g.*, *Brotherhood of Locomotive Eng'rs* v. *Missouri-Kan.-Tex. R.R.*, 363 U.S. 528, 535 (1960); *United Fuel Gas Co.* v. *Public Serv. Comm'n*, 278 U.S. 322, 326 (1929). That "necessarily narrow" standard of review, *Sears, Roebuck & Co.* v. *Mackey*, 351 U.S. 427, 440 (1956) (Frankfurter, J., concurring in part and dissenting in part), is consonant with the flexibility and balancing that equity requires, which is precisely the standard Congress adopted in § 283. It also respects the fact that the trial court has presided over extended proceedings and is better situated to decide how to resolve the equities between the litigants. Here, the Federal Circuit reversed the district court for "not provid[ing]

any persuasive reason to believe that this case is sufficiently exceptional to justify the denial of a permanent injunction." App. 26a. The essence of the "abuse of discretion" standard is, however, not to persuade the reviewing court; it is to act within reason. See, *e.g.*, *Deitchman v. E.R. Squibb & Sons, Inc.*, 740 F.2d 556, 563 (7th Cir. 1984).

Notably, the Federal Circuit's heightened standard of review attaches only to denials of an injunction. By contrast, the Federal Circuit has held that to justify the grant of an injunction, a court need only say that it "finds no sound reason for denying the injunction." See *Metabolite Labs.*, 370 F.3d at 1372 ("While this statement [by the district court] does not explicitly set forth detailed reasons [for the issuance of an injunction], the district court properly granted the injunction because LabCorp was found to infringe.").

The Federal Circuit's reworking of equity would be justifiable had Congress authorized such a departure. For instance, this Court read the Endangered Species Act of 1973 as obligating district courts to enjoin violations. *TVA* v. *Hill*, 437 U.S. 153 (1978). However, Congress in § 283 has plainly stated that district courts are to exercise their equitable discretion. 35 U.S.C. § 283.

The Patent Act could not be clearer in this regard. Section 283 provides that courts (1) "may" grant injunctions to prevent patent violations, and that the courts have the discretion to do so (2) "in accordance with the principles of equity" and only to (3) "prevent the violation of any right secured by patent, on such terms as the court deems reasonable." *Id.* While any one of these phrases taken alone fairly signals that Congress has called for the judicious exercise of equitable discretion, the provision as a whole mandates that conclusion. Indeed, the Federal Circuit, in its early days, recognized that "[s]ection 283, *by its terms, clearly* makes the issuance of an injunction discretionary." *Roche Prods., Inc.* v. *Bolar Pharm. Co.*, 733 F.2d 858, 865 (Fed. Cir. 1984) (emphasis added), *superseded on other*

grounds by statute, 35 U.S.C. § 271(e), *as recognized in W.L. Gore & Assocs.* v. *C.R. Bard, Inc.*, 977 F.2d 558 (Fed. Cir. 1992).

> Since we hold that there is infringement, Roche is entitled to a remedy. We are not in a position, however, to decide the form of that remedy.
>
> . . . The trial court thus has considerable discretion in determining whether the facts of a situation require it to issue an injunction. . . .
>
> . . . In short, if Congress wants the federal courts to issue injunctions without regard to historic equity principles, it is going to have to say so in explicit and even shameless language . . . .

Id. at 865-67. Given the unmistakable clarity of § 283, the Federal Circuit's *volte-face* in this case—announcing a "right to an injunction" to which all prevailing plaintiffs are "entitled"—is not an interpretation of the statute; it is a rewrite of it.

Ignoring the term "may" in the provision, the court of appeals has directed the district courts mechanically to issue permanent injunctions absent "rare" and "exceptional circumstances." Compare *Jama* v. *Immigration & Customs Enforcement*, 125 S. Ct. 694, 703 (2005) ("The word 'may' customarily connotes discretion."), with App. 26a ("[T]he general rule is that a permanent injunction *will* issue once infringement and validity have been adjudged." (emphasis added)). When Congress wanted to use more mandatory language in the Patent Act, it knew how to do so. The provision authorizing compensatory damages for infringement contains far less discretionary language. See 35 U.S.C. § 284 ("Upon finding for the claimant the court *shall* award damages adequate to compensate for the infringement" (emphasis added)). As this Court has held, "[w]here Congress includes particular language in one section of a statute but omits it in another . . . , it is generally presumed

that Congress acts intentionally and purposely in the disparate inclusion or exclusion." *Keene Corp.* v. *United States*, 508 U.S. 200, 208 (1993) (internal quotation marks omitted) (alteration and omission in original).

Nothing in this Court's jurisprudence supports the Federal Circuit's limitation on equitable powers without textual warrant. Over a series of cases, this Court has held resoundingly that it is Congress, and not a court of appeals, that may restrict a court's traditional equitable discretion.

In *Hecht Co.* v. *Bowles*, this Court considered a remedial provision of the Emergency Price Control Act of 1942. 321 U.S. 321 (1944). That section provided that upon a showing by the Price Administrator that a person was engaged or about to be engaged in a violation of the Act, "a permanent or temporary injunction, restraining order, or other order shall be granted without bond." *Id.* at 322. The court of appeals held that an injunction or other order should issue as a matter of course upon a finding of a violation. This Court reversed. It first recognized that a mandatory injunction rule conflicted with venerable principles of equitable discretion. "[I]f Congress had intended to make such a drastic departure from the traditions of equity practice, an unequivocal statement of its purpose would have been made." *Id.* at 329. Notwithstanding the use of the term "shall," this Court found that neither "the history [n]or the language of § 205(a) compel[led]" such a "major departure from that long tradition." *Id.* at 330.

Similarly, nothing in the language of the patent injunction provision or its legislative history justifies the Federal Circuit's virtual elimination of equitable discretion. Indeed, unlike in *Hecht*, § 283 does not contain a mandatory term such as "shall"; rather, as noted above, the provision contains "may" and expressly directs district courts to analyze the propriety of injunctive relief in accordance with the principles of equity.

In *Weinberger* v. *Romero-Barcelo*, 456 U.S. 305 (1982), the district court found that the United States Navy had violated the Federal Water Pollution Control Act, but the court nevertheless declined to issue a permanent injunction, concluding that "an injunction was not necessary to ensure suitably prompt compliance by the Navy." *Id.* at 310. The First Circuit disagreed, holding that the statute obligated district courts to enjoin any violation of the Act.

This Court reversed. As in *Hecht*, this Court first noted that the extraordinary remedy of an injunction "'is not a remedy which issues as of course.'" 456 U.S. at 311 (quoting *Harrisonville* v. *W.S. Dickey Clay Mfg. Co.*, 289 U.S. 334, 337-38 (1933)).

> The grant of jurisdiction to ensure compliance with a statute hardly suggests an absolute duty to do so under any and all circumstances, and a federal judge sitting as chancellor is not mechanically obligated to grant an injunction for every violation of law.

Id. at 313. This Court noted that Congress is "assuredly well aware" that injunctions are based on a showing of irreparable injury, the inadequacy of legal remedies, balancing of hardships to the parties, and consequences of the injunction to the public interest. *Id.* at 312-13.

Accordingly, "Congress may intervene and guide or control the exercise of the courts' discretion, but we do not lightly assume that Congress has intended to depart from established principles." *Id.* at 313. Searching for a signal that Congress had limited the courts' equitable discretion, this Court looked to the language and structure of the Act, along with its legislative history. Having found, as here, nothing that would justify the court of appeals' restriction of equitable discretion, this Court concluded that a court's traditional power to grant or deny an injunction was not foreclosed.

Similarly, in *Amoco Production Co.* v. *Village of Gambell, Alaska*, 480 U.S. 531 (1987), this Court held that the Ninth

Circuit had impermissibly constrained the equitable discretion of the district court. The case involved environmental impact issues related to § 810 of the Alaska National Interest Lands Conservation Act. The court of appeals had reversed the district court's denial of a preliminary injunction, applying a *per se* rule that bears a striking resemblance to that set forth by the Federal Circuit. Compare *People of Village of Gambell* v. *Hodel*, 774 F.2d 1414, 1423 (9th Cir. 1985) ("injunctive relief is the appropriate remedy for a violation of an environmental statute absent rare or unusual circumstances"), with App. 28a ("the general rule [is] that courts will issue permanent injunctions against patent infringement absent exceptional circumstances."). This Court reversed. *Amoco Prod.*, 480 U.S. at 544. As in *Romero-Barcelo*, there was "no clear indication in [the statute] that Congress intended to deny federal district courts their traditional equitable discretion . . . , nor [was this Court] compelled to infer such a limitation." *Id.*

Most recently, this Court found that the Controlled Substances Act did not limit a district court's equitable discretion. Because "the District Court's use of equitable power is not textually required by any 'clear and valid legislative command,' the court did not have to issue an injunction." *United States* v. *Oakland Cannabis Buyers' Coop.*, 532 U.S. 483, 496 (2001) (citing *Hecht*, 321 U.S. at 329).

Although not directly in conflict because only the Federal Circuit hears patent appeals, it is clear that other courts of appeals would have rejected the Federal Circuit's wooden approach to injunctive relief. Those courts, following the approach of this Court in *Hecht* and its progeny, have interpreted similar statutory provisions authorizing injunctions as conferring discretion on the trial courts. For instance, under § 34 of the Lanham Act, a district court has the "power to grant injunctions, according to the principles of equity and upon such terms as the court may deem

reasonable." 15 U.S.C. § 1116(a). Courts have held that § 34 does not mandate permanent injunctions; instead they "will be granted only upon proof of the likelihood that purchasers of the product may be misled in the future." See *Burndy Corp.* v. *Teledyne Indus., Inc.*, 748 F.2d 767, 772 (2d Cir. 1984).

Similarly, the Copyright Act authorizes courts to "grant temporary and final injunctions on such terms as it may deem reasonable to prevent or restrain infringement of a copyright." 17 U.S.C. § 502(a). Emphasizing the term "may" in the provision, this Court has observed that § 502 does not require the automatic grant of an injunction. *Campbell* v. *Acuff-Rose Music, Inc.*, 510 U.S. 569, 578 n.10 (1994) (holding that "that the goals of the copyright law, 'to stimulate the creation and publication of edifying matter,' are not always best served by automatically granting injunctive relief" (citation omitted)); see also *Silverstein* v. *Penguin Putnam, Inc.*, 368 F.3d 77, 84 (2d Cir.) (noting that under § 502 "injunctive relief to enforce a copyright is not compelled") (citing *Dun* v. *Lumbermen's Credit Ass'n*, 209 U.S. 20, 23-24 (1908)), *cert. denied*, 125 S. Ct. 815 (2004); *New Era Publ'ns Int'l, APS* v. *Henry Holt, Co.*, 884 F.2d 659, 661 (2d Cir. 1989) (Miner, J., concurring in denial of petition for rehearing and en banc consideration) ("All now agree that [an] injunction is not the automatic consequence of infringement and that equitable considerations always are germane to the determination of whether an injunction is appropriate."). Thus, but for the exclusive jurisdiction of the Federal Circuit, it is clear that patent defendants would not face a categorical rule imposing injunctive relief for patent violations. The principles of the above decisions apply directly here. Having no basis in the text of the patent laws, the Federal Circuit's *per se* rule, which impermissibly restricts the equitable discretion of the district courts to rare and exceptional circumstances, warrants this Court's review.

II. PROPERTY LAW DOES NOT JUSTIFY THE FEDERAL CIRCUIT'S DEPARTURE FROM § 283.

The Federal Circuit supported its general rule that a permanent injunction follows a finding of infringement by observing that "the 'right to exclude recognized in a patent is but the essence of the concept of property.'" App. 26a (quoting *Richardson*, 868 F.2d at 1246-47). But the Federal Circuit confused a right with a remedy. While the right to exclude is indeed a basic element of property law, there is no "right to an injunction" to which patentees are "entitled." *Id.* at 27a. Rather, an injunction is appropriate when it comports with the principles of equity. 35 U.S.C. § 283.

Indeed, injunctions do not invariably attend trespasses to property. While a trespass surely violates the landholder's right to exclude others, that violation can be remedied by ordinary compensatory damages or a nominal award in the absence of any substantial harm. But a single instance of a trespass certainly does not justify enjoining the trespasser from ever setting foot on the land again. See, *e.g.*, *United States* v. *Zenon*, 711 F.2d 476, 478 (1st Cir. 1983) ("A court has power to enjoin a trespass if it would cause irreparable injury, or if there are *repeated* instances of trespassing, and a single injunction might forestall a 'multiplicity' of legal actions.") (Breyer, J.); *accord* 42 Am. Jur. 2d *Injunctions* § 109 (2004) ("In considering the availability of injunction against trespasses, the courts draw a distinction between single or occasional acts of trespass and those that are continuing or repeated. Equity has, in most cases, no jurisdiction over simple acts of trespass." (footnote omitted)). This principle applies with equal force in other areas of intellectual property, including copyright and trademark. See *Silverstein*, 368 F.3d at 84 (holding that injunctive relief does not automatically follow a violation of copyright); *American Bd. of Psychiatry & Neurology, Inc.* v. *Johnson-Powell*, 129 F.3d 1, 6 (1st Cir. 1997) (upholding denial of injunction in trademark suit based on unlikelihood of future violation).

Thus, property law is not exempt from the venerable rule that injunctions are inappropriate when "there is no showing of any real or immediate threat that the plaintiff will be wronged again." *City of Los Angeles* v. *Lyons*, 461 U.S. 95, 111 (1983).

Accordingly, the right to exclude in property law is upheld by several forms of relief, including money damages. Contrary to the Federal Circuit's observation, plaintiffs are not entitled to an injunction as a matter of course. Indeed, nothing in the common law, including property law, obligates a court to award equitable relief. When this Court has recognized a right to an injunction, it has been because Congress announced a departure from traditional principles of equity using unmistakably clear language: "One would be hard pressed to find a statutory provision whose terms were any plainer . . . ." *Hill*, 437 U.S. at 173 (holding that a violation of the Endangered Species Act obligated the issuance of an injunction); see also *Romero-Barcelo*, 456 U.S. at 314 ("The purpose and language of the statute under consideration in *Hill*, not the bare fact of a statutory violation, compelled that conclusion.").

Here, nothing in the relevant provision remotely supports a right to an injunction. 35 U.S.C. § 283. Rather, Congress has clearly left the issue of the propriety of injunctive relief to the discretion of the trial court. Indeed, in the context of patent injunctions, this Court observed long ago:

> If the conception of the law that a judgment in an action at law is reparation for the trespass, it is only for the particular trespass that is the ground of the action. There may be other trespasses and continuing wrongs and the vexation of many cases. These are well-recognized grounds of equity jurisdiction, *especially in patent cases*, and a citation of cases is unnecessary.

Continental Paper Bag Co. v. *Eastern Paper Bag Co.*, 210 U.S. 405, 430 (1908) (emphasis added). In other words, this

Court has acknowledged that patent injunctions are no different than injunctions awarded in other contexts: they are dependent on a continuing wrong that the injunction aims to deter.

III. PROPER INTERPRETATION OF 35 U.S.C. § 283 IS A QUESTION OF EXCEPTIONAL IMPORTANCE TO THE PATENT SYSTEM AND TO THE NATION'S ECONOMY.

The Federal Circuit's erroneous interpretation of § 283 threatens to undermine the patent system's promotion of invention. Innovation, especially in the economy's high-technology sector, depends critically on patent protection that is both strong and flexible, taking into account the equities in a particular case. As noted at the outset, the patent remedies enacted by Congress reflect a balance between patent protection and overprotection. Rather than mandating permanent injunctions, Congress has expressly granted courts the discretion to enjoin companies only when necessary to prevent future violations, and only when the relief comports with equitable principles. By commanding district courts to issue permanent injunctions absent an exceptional circumstance, the Federal Circuit's rule plainly and impermissibly upsets this careful legislative balance.

It does so at tremendous cost to the Nation's economy. Permanent injunctions are extraordinarily powerful remedies, which have the potential of forcing businesses to shut down, or to pay any fee necessary to avoid that fate. The Federal Circuit's decision ignores this basic fact. The district court correctly observed that granting an injunction to MercExchange would only lead to subsequent contempt proceedings and contentious litigation with its attendant costs and waste. App. 58a-59a. In response, the Federal Circuit noted that patent cases often yield continuing disputes with or without injunctions. *Id.* at 27a. This may be true; but it assumes that a permanent injunction imposes the same costs

on a defendant as money damages. This assumption is mistaken.

Permanent injunctions undeniably raise the stakes of patent cases. Absent an injunction, any subsequent infringement action would involve a money damage remedy, including the possibility of enhanced damages. By contrast, when a court issues a permanent injunction, the continuing dispute over infringement can trigger a contempt proceeding. In such an action, the contemnor would be subject to the panoply of coercive remedial devices available to a court, including severe fines. It is not enough to say that a defendant can avoid the risk of contempt sanctions simply by not infringing. The Federal Circuit's observation that such complex patent suits often beget subsequent litigation demonstrates that it is not always clear where the metes and bounds of a patent right are to be drawn. Given this uncertainty and the potentially wasteful costs of a contempt proceeding, companies are often compelled to agree to an excessively high licensing fee.[3]

To be clear, the point is not that a patent injunction is always inappropriate; it is to emphasize that injunctions impose substantial costs on innovating companies. And the purpose of § 283 and its concomitant principles of equitable discretion is to spare a defendant these costs when it would be unfair to impose them. When however the traditional factors for equitable relief are satisfied, as is often the case in patent disputes, injunctive relief is properly granted. Thus, the discretion inherent in § 283 maintains the integrity of an

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[3] That uncertainty is often compounded by district courts that fail properly to instruct the jury as to the construction of the patent claims. Because such delegation of claim construction to a jury renders the basis for infringement essentially indeterminate, as was the case here, the problems created by the unbending use of injunctive power are exacerbated. The uncertainty ensures that further litigation about the scope of the patent is inevitable. An important hedge against these harms lies in the careful exercise of discretion whether to issue an injunction in such cases.

injunction as a device used to prevent future violation and not as a means for a plaintiff to enhance its negotiating stance. *Foster*, 492 F.2d at 1324.

These additional costs of patent litigation that result from the Federal Circuit's nearly automatic injunction rule are even more troubling given the proliferation of patent assertion firms or "non-practicing entities" ("NPEs"). Indeed, commentators in a recent report issued by the Federal Trade Commission ("FTC") identified the rise of patent suits by NPEs as a growing problem for the Nation's economy. Federal Trade Comm'n, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* ch. 3, 38-39 (2003) ("*FTC Report*"). Specifically, NPEs "obtain and enforce patents against other firms, but either have no product or do not create or sell a product that is vulnerable to infringement countersuit by the company against which the patent is being enforced." *Id.* at 38. NPEs, such as MercExchange, can "threaten [practicing entities] with patent infringement and an injunction, which, if granted, could inflict substantial losses." *Id.* These losses do not just affect the defendant company. Indeed, one commentator in the *FTC Report* observed that costlier licenses "may result in higher prices to consumers, inefficiently low use of the affected products, and deadweight loss." *Id.* at 40-41. Ultimately, innovation may suffer because some companies will "'refrain from introducing certain products'" or, as here, forgo using certain functionalities for fear of such hold-up strategies to extract higher royalties. *Id.* at 41.

This backdrop only brings into greater relief the consequences of subjecting defendants to additional liabilities not called for by § 283 or traditional equitable principles. In light of the adverse impact on the competitive economy, this Court should use this opportunity to protect the equitable discretion Congress has conferred on the district courts.

CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari should be granted.

Respectfully submitted,

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APPENDICES

APPENDIX A

UNITED STATES COURT OF APPEALS
FEDERAL CIRCUIT

Nos. 03-1600, 03-1616

MERCEXCHANGE, L.L.C.,
Plaintiff-Cross Appellant,

v.

eBAY, INC. and HALF.COM, INC.,
Defendants-Appellants.

March 16, 2005

Before MICHEL,* *Chief Judge*, CLEVENGER, and BRYSON, *Circuit Judges*.

BRYSON, *Circuit Judge*.

MercExchange, L.L.C., is the assignee of three patents, U.S. Patent Nos. 5,845,265 ("the '265 patent"), 6,085,176 ("the '176 patent"), and 6,202,051 ("the '051 patent"). MercExchange filed suit against eBay, Inc.; Half.com, Inc.; and ReturnBuy, Inc., in the United States District Court for the Eastern District of Virginia, alleging willful infringement of the '265 patent by all three defendants, willful infringement of the '176 patent by eBay and Half.com, and willful infringement of the '051 patent by eBay.

eBay owns and operates a website on the Internet that allows buyers and sellers to search for goods and to purchase them by participating in live auctions or by buying them at a

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* Paul R. Michel assumed the position of Chief Judge on December 25, 2004.

fixed price. At issue in this case is the fixed-price purchasing feature of eBay's website, which allows customers to purchase items that are listed on eBay's website for a fixed, listed price. Half.com, a wholly owned subsidiary of eBay, owns and operates an Internet website that allows users to search for goods posted on other Internet websites and to purchase those goods. At the time this action was brought, ReturnBuy owned and operated an Internet website that was hosted by the eBay website. Customers interested in purchasing goods from ReturnBuy would be directed from the ReturnBuy website to the eBay website, where items available for sale by ReturnBuy were displayed in an eBay listing.

Prior to trial, ReturnBuy filed for bankruptcy and entered into a settlement agreement with MercExchange. On motions for summary judgment by the other defendants, the district court granted in part and denied in part the motions for summary judgment that the claims of the '051 patent were invalid for an inadequate written description. The remainder of the case went to trial before a jury. At the conclusion of the trial, the jury found that eBay had willfully infringed claims 8, 10-11, 13-15, 17-18, 20-22, and 26 of the '265 patent and had induced ReturnBuy to infringe claims 1, 4, 7, and 23 of the '265 patent; that Half.com had willfully infringed claims 8, 10, 11, 13, 15, 17-18, 20, 22, and 26-29 of the '265 patent and claims 1, 5-6, 29, 31-32, and 34-39 of the '176 patent; and that neither the '265 patent nor the '176 patent was invalid. With respect to damages, the jury found eBay liable for $10.5 million for infringing the '265 patent and $5.5 million for inducing ReturnBuy to infringe the '265 patent. The jury also held Half.com liable for $19 million for infringing the '176 patent and the '265 patent.

Following the verdict, eBay and Half.com moved for judgment as a matter of law ("JMOL") that the asserted claims of the '265 patent were not infringed and were invalid. In the alternative, eBay and Half.com moved for a new trial

on the '265 patent. Half.com moved for JMOL that the asserted claims of the '176 patent were not infringed and were invalid. In the alternative, Half.com moved for a new trial on the '176 patent. In addition, eBay moved to set aside the $5.5 million award for inducing ReturnBuy to infringe the '265 patent. The district court denied the defendants' motions regarding infringement and validity, but granted eBay's motion to set aside the damages award for inducement of infringement. The court also denied MercExchange's motion for a permanent injunction, for enhanced damages, and for attorney fees.

The defendants appeal the denial of their motions for JMOL and for a new trial on the '265 and '176 patents. Because substantial evidence supports the jury's verdict regarding infringement and validity of the '265 patent, we affirm those aspects of the judgment. Because there is no substantial evidence to support the jury's verdict that eBay induced ReturnBuy to infringe the '265 patent, we reverse that aspect of the judgment. We also hold that the claims of the '176 patent are invalid for anticipation, and we therefore reverse the judgment in that regard and direct entry of judgment for Half.com on the '176 patent.

MercExchange cross-appeals, seeking reversal of the summary judgment of invalidity of the '051 patent and reversal of the district court's denial of a permanent injunction, enhanced damages, and attorney fees. MercExchange also cross-appeals the district court's order vacating the award of damages for inducement of infringement. Because the district court resolved a dispute of material fact on summary judgment and improperly denied a permanent injunction, we reverse the denial of the permanent injunction, vacate the summary judgment order, and remand for further proceedings. However, we hold that the district court did not abuse its discretion in denying enhanced damages and attorney fees.

I

A

We turn first to the district court's denial of the defendants' motion for JMOL of noninfringement with respect to the '265 patent. The '265 patent pertains to a system for selling goods through an "electronic network of consignment stores." '265 patent, col. 1, line 8. To participate in the electronic network, a consignment store must obtain a "consignment node," which uses a computer to upload and save digital images and written information about goods to be sold over the network. A prospective buyer can electronically browse and search for goods stored in the databases of consignment nodes in the electronic network. After browsing and searching, the prospective buyer can purchase any good listed on the electronic network. Upon purchasing the good, the buyer can decide either to have the good shipped or to resell the good to another buyer over the electronic network. The patent refers to the decision to buy and resell as "speculating," because the system does not require the buyer to take possession of the good before reselling it and thereby allows the buyer to resell at a price that does not take into consideration the delays and costs associated with delivery.

The asserted claims each include a "transaction processor" that is used to complete the financial transaction accompanying the sale of a good. The transaction processor limitation of claim 8 reads as follows:

> a transaction processor operably connected to said wide area communication network and said storage device, said transaction processor adapted to receive a purchase request and payment means from said participant, clear said purchase request and payment means and if said payment means clears then transfer the ownership of said good for sale by modifying said data record of said good for sale to reflect the new ownership of said good for sale by said participant.

The defendants contend that the district court erred in denying their motion for a JMOL of noninfringement because there was no substantial evidence from which a reasonable jury could conclude that eBay's system "transfer[red] the ownership" of a good for sale, as required by the transaction processor limitation.

As an initial matter, the defendants' arguments do not apply to claim 26 and dependent claims 27-29. The transaction processor limitation of claim 26 reads as follows:

> a transaction processor operably connected to said wide area communication network and said storage device, said transaction processor adapted to receive a purchase request and electronic payment from said participant, transfer said purchase request to said posting terminal, and verify electronic payment information from said participant and if said electronic payment verifies then notify owner of said good for sale by modifying said data record indexed to said data record for sale to reflect said purchase request of said good for sale by said participant.

This claim language differs from the language of claim 8 in a significant way. While the transaction processor portion of claim 8 culminates in a step requiring the transaction processor to "transfer the ownership of said good for sale," the transaction processor portion of claim 26 culminates in a step requiring the transaction processor to "notify [the] owner of said good for sale . . . ." Claim 26 nowhere requires transfer of ownership of a good and does not even contain the term "ownership" or the term "transfer." The defendants argue that the transaction processor of claim 26 must be construed as limited to a transaction processor that transfers ownership by conveyance of title, but nothing in claim 26 supports that argument, and we reject it. Accordingly, we hold that the district court did not err in denying defendants' motion for JMOL with regard to noninfringement of claims 26-29. The

remainder of our analysis is focused on the construction of claim 8 and its related claims.

In its instructions to the jury, the district court provided the following interpretation of the "transfer the ownership" limitation:

> If the payment made by a participant for a good for sale clears, then the legal ownership is transferred by modifying the ownership entry in the data record of the good to reflect that the purchasing participant is the new owner of the good.

The defendants do not challenge the accuracy of that instruction, but they assert that the district court erred by failing to give two additional instructions. First, they contend that because the transaction processor limitation transfers the ownership of a "good for sale," the transaction processor must be capable of transferring legal title, and that the district court should have instructed the jury on the requirements for title transfer under the Uniform Commercial Code ("UCC"). Second, they contend that the district court failed to include in its jury instructions a statement from the court's pretrial claim construction order (the "*Markman* order") that transfer of ownership is "not limited to merely modifying the record—legal ownership must be transferred." The defendants argue that without that statement the jury was not informed of the requirement that legal title to the good must pass to the purchaser.

In its post-trial order, the district court addressed and rejected both of those arguments. The court ruled that the defendants were not entitled to an instruction on title transfer under the UCC, because the transfer of ownership limitation did not require the transfer of legal title pursuant to the UCC. With respect to the statements from the court's *Markman* order, the court stated that it had already provided the jury with a sufficient claim construction and was under no obli-

gation to include additional language that it used in its claim construction opinion.

We uphold the district court's interpretation of the transfer of ownership limitation and its decision not to provide the jury with additional instructions regarding that limitation. The district court's interpretation is consistent with the language of the claims and the specification of the '265 patent. Claim 8 states that a transaction processor accomplishes the "transfer [of] ownership of said good for sale by modifying said data record of said good for sale to reflect the new ownership of said good for sale by said participant." '265 patent, col. 21, ll. 51-54. The specification contains similar language, stating that the consignment node "transfers legal ownership of the good by changing the ownership entry in the data record in the consignment node of the good." *Id.*, col. 12, ll. 46-48.

The claim and specification do not suggest that the modification of a data record in isolation is sufficient to transfer ownership under the patent. Rather, the specification makes clear that the modification of the data record reflects that a buyer has paid for the good and that it is the payment for the good, accompanied by the data record modification, that accomplishes the transfer of legal ownership. '265 patent, col. 19, ll. 11-13.

It is also important to understand that the patented system accomplishes a transfer of ownership in the context of a "trusted network," in which the owner of the patented system "may police the network to give quality control, detect fraud and revoke the users," *id.*, col. 4, ll. 56-57, so that the network maintains a certain "quality and performance structure," *id.*, col. 4, line 60, to guarantee payment and delivery of the good. The specification indicates that the "trusted network" of the invention is part of what allows ownership to pass upon modification of the data record. In light of the specification, we agree with the district court that

within the context of the patent, transferring legal ownership is accomplished once the data record is modified.

The defendants argue that the modification of the data record by itself is not sufficient to transfer ownership, but rather that a "legal predicate" such as the UCC must be satisfied in order for the modification of the data record to have the effect of transferring ownership. In so arguing, the defendants rely on the use of the term "legal title" in the specification. The use of that term, however, does not mean that transfer of ownership must be equated with a formal transfer of title. Rather, the specification treats the term "legal title" as synonymous with the general concept of "ownership" as used in the patent. *See, e.g.*, '265 patent, col. 19, ll. 11-13 ("[W]hen a bona fide purchase price is tendered by a participant . . . or another retailer . . . the legal title to a good as represented by the record will transfer to the buyer with an immediate or nearly immediate finality to the transaction."). The use of the term "legal title" in the specification therefore does not add any legal requirements to the transfer of ownership referred to in the claims, and does not negate the statements in the specification and in the claim language that the transfer of ownership is accomplished upon the modification of the data and the clearing of payment in a trusted network.

We also agree with the district court that it was not necessary for the court to include excerpts from its *Markman* order in the jury instructions. A district court's *Markman* order is an explanation to the parties of the reasoning behind its claim construction. The court's analysis need not be part of the jury instructions. The defendants focus on the district court's statement in its *Markman* order that transfer of ownership is "not limited to merely modifying the record—legal ownership must be transferred," and they assert that the court's failure to convey the substance of that statement prejudiced them because it left room for MercExchange to

assert in its closing argument that "[t]here is no requirement that legal title in that formal sense be transferred." The claims, however, do not require that title be transferred pursuant to any particular steps or legal formalities, and the district court's statement in its *Markman* order does not say so. It was therefore not error for the court to omit the requested instruction.

In light of the district court's claim construction, we find that MercExchange introduced sufficient evidence to permit the jury to find that eBay's system infringed the '265 patent. MercExchange's expert, Dr. Alfred Weaver, testified that "eBay has to transfer ownership by modifying the data record." He also made clear that the modification of the data record reflected the fact that payment had been made, as he stated that "when [ ] payment comes through, [eBay and Half.com] are authorized to transfer ownership by modifying [the] data record." Moreover, while eBay asserts that its system is not "trusted," we agree with the district court's statement in its post-trial order that there was substantial evidence from which the jury could find that eBay's system was trusted, given the evidence in the record that the system provided "escrow services, conflict resolution services, insurance, payment intermediaries, authentication services, feedback forum, and the policing of the system." We therefore affirm the district court's denial of the defendants' motion for JMOL of noninfringement of the '265 patent.

B

In reviewing the defendants' motion to invalidate the '265 patent as a matter of law, the district court focused exclusively on obviousness and found that MercExchange "did indeed attack the merits of the defendants' prior art references and the failure of the defendants' witnesses to show how the prior art invalidated each of the claims of the '265 patent, despite the fact that the defendants argue otherwise." On appeal, the defendants argue that a rea-

sonable jury would necessarily have found the asserted claims to be invalid because they are anticipated or rendered obvious by a prior art reference, U.S. Patent No. 5,664,111 ("the '111 patent"). The '111 patent pertains to a system for art dealers to sell artwork by using a network of computers. The system enables users to store and retrieve images and data pertaining to the artwork and to purchase artwork corresponding to the images.

As an initial matter, MercExchange argues that because the defendants' invalidity arguments were based solely on obviousness, they have waived their right to make an invalidity argument on appeal based on anticipation. We disagree. Because "anticipation is the epitome of obviousness," *Connell v. Sears, Roebuck & Co.*, 722 F.2d 1542, 1548 (Fed.Cir.1983), the defendants' obviousness arguments preserved their right to argue invalidity based on anticipation, *Johns Hopkins Univ. v. CellPro, Inc.*, 152 F.3d 1342, 1357 n. 21 (Fed.Cir.1998).

On the merits, the defendants argue that the '111 patent anticipates all of the asserted claims of the '265 patent and that MercExchange's expert, Dr. Weaver, failed to distinguish the system of the '111 patent from the system of the '265 patent. First, they assert that Dr. Weaver conceded on cross-examination that the '111 patent discloses the same transaction processor that is claimed in the '265 patent, because he admitted that the Patent and Trademark Office ("PTO") found that the '111 patent discloses a transaction processor and he did not contest the PTO's finding on that issue. However, while Dr. Weaver agreed that the PTO "would understand that [the '111 patent] discloses, among other things, transferring an ownership interest in an item," that testimony does not contradict his testimony that nothing in the '111 patent described a modification of the data record subsequent to payment verification. Thus, Dr. Weaver did not concede that the '111 patent disclosed the same transaction processor that is claimed in the '265 patent.

The defendants fail to address another distinction regarding the transaction processor limitation. In the '265 patent, a transaction processor is designed to receive payments by "entering a credit card number and expiration date or other forms of electronic payment." '265 patent, col. 5, ll. 6-8. The system claimed by the '111 patent, however, does not receive payments electronically. Rather, the system "requests that the buying dealer wire transfer funds to pay for the purchased work." '111 patent, col. 14, ll. 62-64. Instead of being able to complete a transaction on the electronic network, a buyer using the invention of the '111 patent must temporarily leave the system to make a payment before the transaction can be completed.

The defendants also contend that Dr. Weaver failed to distinguish the '265 patent from the '111 patent with regard to the posting terminal apparatus limitation and in particular the use of an identification code to prevent certain dealers from logging on to the system. The defendants argue that Dr. Weaver conceded that the '111 patent discloses the same identification code as the '265 patent. They cite Dr. Weaver's testimony on cross-examination, in which he stated that the system claimed by the '111 patent "used the terminal identification code to limit the access of certain dealers to certain pieces of art." Dr. Weaver stated on redirect examination, however, that the identification code used in the '111 system is not the same as the identification code used for terminal authorization in the posting terminal apparatus claimed in the '265 patent: "All that's happening in [the '111 patent] is that a person is identifying himself with a code. And in my mind that's not at all consistent with the way the Court defined the posting terminal apparatus code," i.e., as a code that "identifies the hardware and/or software of the posting terminal apparatus." From that testimony, a reasonable jury could infer that while the identification code in the '111 patent is directed to preventing access by a specific dealer, the identification code in the '265 patent is not dealer-

specific, but serves instead to screen out terminal apparatuses that lack particular technical requirements. The evidence thus provided a sufficient basis for the jury to conclude that the '111 patent did not anticipate the asserted claims of the '265 patent.

We also reject the defendants' argument that the '111 patent renders the asserted claims of the '265 patent obvious. Dr. Weaver testified that the patented invention differs from the '111 patent in both structure and method and that a person of ordinary skill in the art would not be motivated to modify the system covered by the '111 patent to create the system claimed in the '265 patent. For example, with regard to the posting terminal apparatus of the '265 patent, Dr. Weaver testified that one of ordinary skill in the art would not be motivated "to change or modify the dealer ID code in [the '111 patent system] to conform to the user ID protocols of the '265 patent's posting terminal apparatus," as the two are "dramatically different operations" that are used for different purposes. In light of Dr. Weaver's testimony, we agree with the district court that there was substantial evidence to support the jury's finding of nonobviousness.

C

The defendants contend that they are entitled to JMOL on the theory that eBay was not shown to have induced ReturnBuy to infringe four of the claims of the '265 patent. Claim 1 is representative of three of the asserted claims—claims 1, 4, and 7. It provides:

> 1. A system for presenting a data record of a good for sale to a market for goods, said market for goods having an interface to a wide area communication network for presenting and offering goods for sale to a purchaser, a payment clearing means for processing a purchase request from said purchaser, a database means for storing and tracking said data record of said good for

sale, a communications means for communicating with said system to accept said data record of said good and a payment means for transferring funds to a user of said system, said system comprising:

a digital image means for creating a digital image of a good for sale;

a user interface for receiving textual information from a user;

a bar code scanner;

a bar code printer;

a storage device;

a communications means for communicating with the market; and

a computer locally connected to said digital image means, said user interface, said bar code scanner, said bar code printer, said storage device digital image of said good for sale from said digital image means, generate a data record of said good for sale, incorporate said digital image of said good for sale into said data record, receive a textual description of said good for sale from said user interface, store said data record on said storage device, transfer said data record to the market for goods via said communications means and receive a tracking number for said good for sale from the market for goods via said communications means, store said tracking number from the market for goods in said data record on said storage device and printing a bar code from said tracking number on said bar code printer.

The only other asserted claim, claim 23, differs from claim 1 in that claim 23 recites a "digital camera for creating an image," instead of a "digital image means for creating a digital image," and it recites a "printer for printing said digital image of said good for sale."

According to 35 U.S.C. § 271(b), "whoever actively induces infringement of a patent shall be liable as an infringer." We have construed that statute to require proof of intent, although there is a "lack of clarity concerning whether the required intent must be merely to induce the specific acts [of infringement] or additionally to cause an infringement." *Insituform Techs., Inc. v. CAT Contracting, Inc.*, 385 F.3d 1360, 1378 (Fed.Cir.2004), citing *Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 553 (Fed.Cir.1990), and *Hewlett-Packard Co. v. Bausch & Lomb, Inc.*, 909 F.2d 1464, 1469 (Fed.Cir.1990). Nevertheless, a patentee must be able to demonstrate at least that the alleged inducer had knowledge of the infringing acts in order to demonstrate either level of intent.

MercExchange asserts that the evidence was sufficient for the jury to find that eBay had induced infringement based on the testimony of ReturnBuy's former CEO and its former CTO. MercExchange points to testimony that eBay had invested $2 million in ReturnBuy and had an "observer" on ReturnBuy's board of directors; that eBay granted ReturnBuy the right to post goods in volume on the eBay system; that eBay was the "primary venue" for ReturnBuy's sales; and that eBay supplied engineers to work with ReturnBuy to facilitate the posting of goods for sale through eBay. That evidence, however, does not establish that eBay induced ReturnBuy to infringe the asserted claims.

First, the testimony regarding eBay's investment in ReturnBuy's business and its presence on ReturnBuy's board of directors does not demonstrate an intent to induce infringement, or even show that eBay had knowledge of any acts of infringement by ReturnBuy. Rather, investment and board presence merely indicate that there was a business relationship between the two companies and that eBay had a financial interest in ReturnBuy's business.

Other testimony presented by ReturnBuy's CEO and its CTO demonstrates, at best, that eBay encouraged ReturnBuy to post goods for sale on eBay's website. Posting goods for sale, however, is relevant to only one limitation of the claims, i.e., "a communications means for communicating with the market." There is no testimony or other record evidence that eBay intended to induce ReturnBuy to incorporate the other limitations of the asserted claims. For example, claim 1 requires the use of a bar code scanner and a bar code printer. The specification explains and the record shows that the bar code scanner and printer are used for tracking goods. There is nothing in the record to show that eBay had any intention to induce ReturnBuy to use bar code scanners and printers to keep track of its inventory.

Likewise, claim 23 contains limitations requiring the use of a digital camera and printer, but there is nothing in the record to demonstrate that eBay intended to induce ReturnBuy to use those devices to create the digital image used for posting. While eBay required ReturnBuy to provide a digital image and an accompanying data record for the goods that ReturnBuy wanted to sell on its website, nothing in the record shows that eBay induced ReturnBuy to use a digital camera or a printer to create either the digital image or the accompanying data record, since digital images may be created by other means, such as by scanning developed photographs. Therefore, the evidence is insufficient to demonstrate that eBay intended to induce ReturnBuy to infringe claim 23.

Accordingly, we reverse the portion of the judgment holding eBay liable for inducing ReturnBuy to infringe the '265 patent. In light of our disposition of that issue, it is unnecessary for us to address MercExchange's argument that the district court erred when it vacated the jury's award of damages on the inducement claim as duplicative.

II

We turn next to issues pertaining to the '176 patent. Each of the asserted claims of the '176 patent recites a method for searching "a plurality of electronic markets" to locate an item. That method uses a network of computers to accomplish each search. One computer receives and processes a search request from a participant and transmits that request to other computers through a software search agent. After search results are obtained, they are sent back to the participant's computer.

Following trial, the district court denied Half.com's motion for JMOL that the '176 patent was not infringed and is invalid. We reverse that ruling. Because we base our reversal on invalidity, we need not reach the issue of infringement.

A

Half.com's invalidity argument turns on the construction of the claim term "electronic market." At trial, the district court instructed the jury that the term electronic market means a "trusted network or system where participants can buy, sell, search or browse goods online." Half.com asserts that the district court's construction of electronic market requires that each of the searched websites be capable of performing four functions: buying, selling, searching, and browsing. As the basis for its interpretation of the district court's construction of that term, Half.com relies heavily on the use of the word "and" to connect the four functions in a statement from the district court's *Markman* order, in which the court said, "Based on the inventor's clear intent to allow users to buy, sell, search and browse for items in the electronic market, the court finds that the completion of a transaction between buyer and seller is not required."

In its post-trial order, the district court rejected Half.com's interpretation of the court's claim construction. The court stated that "[t]here was nothing in [the] claim construc-

tion that required the electronic market to do all four functions cited."

We agree with the district court that the patent does not require the electronic market to perform all four functions. The '176 patent is designed in part to provide a system that allows participants to speculate, i.e., to buy an item and then promptly sell it at a higher price. That is the purpose to which Half.com alludes in contending that the patent requires the electronic market to be able to handle not only buying but also selling. The specification makes clear, however, that speculation is not the only use for the system, and that there are other purposes for the system in the context of "the two-tiered market of dealer-to-dealer and retail markets." '176 patent, col. 16, ll. 28-29. One of the main purposes of the patented system is to create a double-tiered market for goods, "where the first tier is a retail price and the second tier is a wholesale or dealer to dealer price[,] and an authorized dealer has pre-approved access to the dealer-to-dealer price and may charge and display the retail price to a local store customer." *Id.*, col. 1, ll. 49-51. The specification provides that "[t]he price and reserve price fields may be used to structure the two-tiered market of dealer-to-dealer and retail markets." *Id.*, col. 16, ll. 27-29. It further provides that "[a] dealer may be provided with special logon identifications and passwords to view the reserve price . . . and reserve price indicator" that is not accessible to retail purchasers. *Id.*, col. 16, ll. 31-33. However, if a retail dealer purchases an item, he may choose to sell to other retail dealers or to retail customers. In that situation, the retail dealer may enter a retail price and a wholesale price into the system. *Id.*, col. 16, ll. 40-41. The retail price may then be displayed to the retail customer. *Id.*, col. 16, ll. 41-42.

Importantly, when a retail customer decides to participate in the system, the retail customer, after browsing and searching, has only the option of purchasing goods. The

customer is not allowed to sell goods to the retail dealer. That is, while dealers are able to act as participants in the dealer-to-dealer market by buying from and selling to other dealers, customers in the retailer-to-customer market are not allowed the same freedom. The description of the retail-to-retail market discloses two types of electronic markets—those in which a participant can buy, browse, and search, and those in which a participant can sell, browse, and search. The description of the use of the invention for speculation discloses a third type of electronic market—one in which a participant can buy and sell as well as browse and search. Accordingly, we agree with the district court's definition of electronic markets as markets in which the participants, in addition to browsing and searching, may either buy or sell or do both.

B

At trial, Half.com argued that the district court should enter a JMOL of invalidity because there was clear and convincing evidence that the asserted claims were rendered obvious in view of expert testimony and several publications, including an article by Arthur Keller. The district court rejected Half.com's argument, stating that "[w]hen the evidence on invalidity is viewed in the light most favorable to the plaintiff, the court cannot find that there was a complete absence of evidence supporting the verdict that the jury's findings could only be the result of sheer surmise and conjecture."

On appeal, Half.com again contends that the asserted claims of the '176 patent were anticipated or obvious in light of the prior art. In response, MercExchange first asserts that Half.com waived its right to make any argument on appeal based on anticipation because it failed to do so at trial. As we noted earlier, however, making an invalidity argument based on obviousness preserves the right to argue anticipation on appeal. Because Half.com argued invalidity based on obvi-

ousness at trial, it has preserved its right to make an argument regarding anticipation on appeal.

On the merits, we agree with Half.com that no reasonable jury could have found the asserted claims of the '176 patent to be valid. The Keller article discloses each of the limitations of the asserted claims, and the article is enabling. The article describes a system to conduct a "cross-search of multiple catalogs" by using a network of computers hosting online catalogs. The article recognizes the problem of an online buyer's having to search multiple online catalogs, and it solves that problem by presenting a system for searching multiple online catalogs using search agents.

In addition to disclosing each of the limitations of the asserted claims, the Keller article enables a person of ordinary skill to practice its system by disclosing the communication language of the search agents, i.e., KQML and KIF ontologies. It also provides a flow chart that describes how the system operates, including how the user interfaces with the system, i.e., by using HTML/HTTP protocols, and how a search agent retrieves product data, i.e., by using SQL. Contrary to MercExchange's assertion, the Keller article that describes how to make the system is not a mere laundry list of factors.

MercExchange argues that the Keller article fails to disclose all the limitations of the '176 patent because it fails to disclose a method for searching "electronic markets" but instead searches for "catalogs." MercExchange asserts that, unlike the electronic market claimed in the '176 patent, a catalog guarantees a participant the right to browse and search, but does not guarantee the ability either to buy or to sell a particular good. However, the Keller article clearly describes a system that searches catalogs that are serviced by what the article calls "vendors," who offer products for sale. Accordingly, the Keller article contemplates a system in which a participant is able to search, browse, and buy.

Because a participant is able to buy goods in the market, that is sufficient to satisfy the "buy or sell" requirement of the asserted claims. In sum, we conclude that the Keller article discloses each limitation of the asserted claims of the '176 patent, and for that reason we hold that those claims are anticipated.

III

The defendants contend that they are entitled to a new trial because the district court erred in instructing the jury on the definition of several terms used in the '265 patent. With respect to the term "transaction processor," the defendants repeat the same argument they made in addressing the district court's denial of their motion for JMOL of noninfringement and invalidity, i.e., that they were prejudiced because the instruction on that term differed from the court's *Markman* order. As we have explained, we agree with the district court's jury instruction on that claim term, and the court was not required to instruct the jury in strict conformity with the language of its pretrial *Markman* order.

With regard to the terms "electronic markets" and "market apparatus," the defendants assert that the district court erred by failing to give jury instructions that those terms do not encompass "person-to-person" systems, but instead include only trusted networks that could transfer ownership. The defendants contend that the district court should have instructed the jury that electronic markets do not include "person-to-person" contacts. If it had done so, they argue, no reasonable jury could have found that eBay infringes, because eBay uses a "person-to-person" system.

The defendants' contention that the '265 patent prohibits buyers and sellers from having direct contact finds no support in the '265 patent. The court was therefore correct not to include that interpretation in the jury instructions. Moreover, to the extent that the defendants contend that the district

court's *Markman* order embraced their theory that the patent excluded person-to-person systems, they are incorrect. In its *Markman* order, the district court stated that "the patent teaches away from person-to-person auctions, favoring a system with a trusted intermediary." However, the court never defined what a "person-to-person" system entails. Rather, it merely determined that an electronic market must be a "trusted network or system," which is the correct interpretation.

IV

In its cross-appeal, MercExchange contests the summary judgment of invalidity as to the asserted claims of the '051 patent, and it asserts that the district court erred in construing certain terms used in that patent. MercExchange also challenges the district court's post-trial order denying MercExchange's request for a permanent injunction, enhanced damages, and attorney fees, and reducing the amount of the damages award by eliminating the $5.5 million in damages for eBay's inducement to infringe.

A

Prior to trial, the defendants asserted that the claims of the '051 patent were invalid because the written description is inadequate to support either "establish[ing] a seller's account" or "debiting [or charging] a seller's account" for a fee. Claim 12 contains both terms and is representative of the independent claims at issue with regard to the '051 patent:

> A computer-implemented method for facilitating Internet-based auctions, the method comprising:
>
> Requiring a seller to establish a seller's account, the seller's account being based at least on the seller's identity and a financial instrument associated with the seller;

> Initiating an Internet-based auction for an item offered by the seller; and
>
> Debiting the seller's account for a fee amount corresponding to a result of the auction.

The district court concluded, on summary judgment, that the reference to "establish[ing] a seller's account" was adequately supported by the written description, but that the process of "debiting the seller's account for a fee" was not. The court therefore held the asserted claims of the '051 patent invalid.

The district court construed the term "debiting a seller's account" to mean "record[ing] a debt (or charge) against a person's name or account." The court held that the written description of the patent provided support for recording a credit to a seller's account, but not for recording a debit against the seller's account. In so ruling, the court relied heavily on a statement from the written description that "[a]fter the transaction clears the charge . . . , the consignment node credits the consignment node user's commission account . . . to extract the consignment node transaction fee." '051 patent, col. 12, ll. 52-55. The court interpreted that statement as describing a process in which the consignment node takes the proceeds of a sale from the buyer, takes a commission or fee, credits the seller's account with the balance, and transfers that amount to the seller. Because the seller never owes money to the node, the court concluded that debiting never occurs in the disclosed process.

MercExchange argues that the joint declaration of its experts created a genuine issue of material fact as to the adequacy of the written description. The declaration explained that a person of ordinary skill in the art would understand the process of extracting a fee or commission, as described in the written description, to involve "debiting a seller's account." We agree. The written description refers to

the seller's agreement to allow the consignment node user to extract a consignment fee or commission following the sale. *See* '051 patent, col. 4, ll. 30-34; col. 5, ll. 37-39. It also refers to the consignment node user's creating a credit or deposit account for the participant and crediting the consignment node user's commission account to extract the commission. *See id.*, col. 12, ll. 44-46, 52-55. According to MercExchange's experts, a person of ordinary skill in the art would understand that creating a credit, as described in the specification, would require creating a corresponding debit against the proceeds due to the seller. Hence, MercExchange provided evidence that the specification would be understood by a person of skill in the art to describe a process that includes debiting the seller's account.

We thus conclude that MercExchange introduced sufficient evidence that the '051 patent was not invalid for lack of written description to create a genuine issue of material fact on that issue. Accordingly, we vacate that aspect of the judgment and remand for further proceedings.

B

In connection with its challenge to the court's order invalidating the '051 patent, MercExchange argues that the district court made three errors in construing the claims of that patent. As an initial matter, the defendants assert that this court lacks jurisdiction to hear MercExchange's appeal regarding those errors because the construction of those terms was not relevant to the final judgment. Specifically, the defendants argue that this court should address only claim construction issues pertaining to the term "debiting," because that term was the sole basis for the district court's summary judgment determination. Because we are vacating and remanding with respect to the '051 patent, we have jurisdiction to address issues that may arise on remand, as part of our statutory authority to "require such further proceedings to be had as may be just under the circumstances." 28 U.S.C.

§ 2106. It is likely that the district court will be required to deal not only with the application of the term "debiting," but also with the application of other terms used in the '051 claims. Accordingly, we elect to address MercExchange's challenges to other claim construction issues at this juncture.

First, MercExchange challenges the construction of the term "auction," asserting that the district court erred in construing the term as "a process over a trusted network, or with a trusted intermediary." MercExchange argues that the district court should not have required a "trusted" element. We disagree. The district court's construction is supported by the language of the specification, which states that the purpose of the patented system is "to provide a trusted network of consignment nodes that act as brokers to provide a means to electronically present a used good or collectable to an electronic market." '051 patent, col. 2, ll. 12-14.

Second, MercExchange challenges the district court's construction of the following claim limitation, which appears in claims 10 and 12:

> Requiring a seller to establish a seller's account, the seller's account being based at least on the seller's identity and a financial instrument associated with the seller.

In its *Markman* order, the district court ruled that "a seller's account must be established based at least on the seller's identity and a financial instrument associated with the seller." MercExchange disagrees with the district court's construction on the ground that the comma between the words "account" and "the" in the claim makes the "identity" and "financial instrument" features optional. If the patentee had intended the two to be mandatory, MercExchange argues, the limitation would not have used a comma and would have read: "requiring the seller to establish a seller's account based at least on the seller's identity and a financial instrument associated with the seller."

MercExchange's textual argument is unconvincing. The claim states that a seller must establish "a seller's account," and then, after the comma, the word "seller's account" is used a second time and is directly preceded by the article "the." The use of the definite article indicates that the second use of the term "seller's account" refers to the term directly preceding the comma. We uphold the district court's construction.

Finally, MercExchange asserts that the district court erred in construing the preamble phrases "automated method, performed by a computer-based auction system," and "computer-implemented method of conducting Internet-based auctions" in various claims of the '051 patent. The district court held that those phrases do not require that all steps following the preamble be performed by an automated process, as argued by MercExchange. Rather, only the steps that are claimed to occur automatically are required to be performed in that manner. MercExchange contends that the court's interpretation is inconsistent with the portion of the specification entitled "Computer Implementation," which provides different operating systems and platforms for use in a preferred embodiment of the invention. '051 patent, col. 7, line 59 through col. 8, line 9. That portion of the specification does not support MercExchange's argument, however. Various limitations of the relevant claims require actions by participants and cannot be "automatically performed via an automated process." For example, as the district court stated in its *Markman* order, claim 1 contains a limitation requiring that the computer system "receiv[e] bids on the item from participants." That step requires that participants enter their bids manually and cannot occur automatically. Likewise, one step of claim 12 requires that a seller "establish a seller's account." That step also requires that a seller manually enter relevant information into the system. Accordingly, the district court was correct in holding that not all steps had to be performed by way of an automated process.

C

MercExchange challenges the district court's refusal to enter a permanent injunction. Because the "right to exclude recognized in a patent is but the essence of the concept of property," the general rule is that a permanent injunction will issue once infringement and validity have been adjudged. *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1246-47 (Fed.Cir.1989). To be sure, "courts have in rare instances exercised their discretion to deny injunctive relief in order to protect the public interest." *Rite-Hite Corp. v. Kelley, Inc.*, 56 F.3d 1538, 1547 (Fed.Cir.1995); *see Roche Prods., Inc. v. Bolar Pharm. Co.*, 733 F.2d 858, 865-66 (Fed.Cir.1984) ("standards of the public interest, not the requirements of private litigation, measure the propriety and need for injunctive relief"). Thus, we have stated that a court may decline to enter an injunction when "a patentee's failure to practice the patented invention frustrates an important public need for the invention," such as the need to use an invention to protect public health. *Rite-Hite Corp.*, 56 F.3d at 1547.

In this case, the district court did not provide any persuasive reason to believe this case is sufficiently-exceptional to justify the denial of a permanent injunction. In its post-trial order, the district court stated that the public interest favors denial of a permanent injunction in view of "a growing concern over the issuance of business-method patents, which forced the PTO to implement a second level review policy and cause legislation to be introduced in Congress to eliminate the presumption of validity for such patents." A general concern regarding business-method patents, however, is not the type of important public need that justifies the unusual step of denying injunctive relief.

Another reason the court gave for denying a permanent injunction was that the litigation in this case had been contentious and that if a permanent injunction were granted, the defendants would attempt to design around it. That strategy, in

turn, would result in "contempt hearing after contempt hearing requiring the court to essentially conduct separate infringement trials to determine if the changes to the defendants' systems violates the injunction" and in "extraordinary costs to the parties, as well as considerable judicial resources."

The court's concern about the likelihood of continuing disputes over whether the defendants' subsequent actions would violate MercExchange's rights is not a sufficient basis for denying a permanent injunction. A continuing dispute of that sort is not unusual in a patent case, and even absent an injunction, such a dispute would be likely to continue in the form of successive infringement actions if the patentee believed the defendants' conduct continued to violate its rights.

The trial court also noted that MercExchange had made public statements regarding its willingness to license its patents, and the court justified its denial of a permanent injunction based in part on those statements. The fact that MercExchange may have expressed willingness to license its patents should not, however, deprive it of the right to an injunction to which it would otherwise be entitled. Injunctions are not reserved for patentees who intend to practice their patents, as opposed to those who choose to license. The statutory right to exclude is equally available to both groups, and the right to an adequate remedy to enforce that right should be equally available to both as well. If the injunction gives the patentee additional leverage in licensing, that is a natural consequence of the right to exclude and not an inappropriate reward to a party that does not intend to compete in the marketplace with potential infringers.

Finally, we do not agree with the court that MercExchange's failure to move for a preliminary injunction militates against its right to a permanent injunction. A preliminary injunction is extraordinary relief that is available only on a special showing of need for relief *pendente lite*; a preliminary injunction and a permanent injunction "are dis-

tinct forms of equitable relief that have different prerequisites and serve entirely different purposes." *Lermer Germany GmbH v. Lermer Corp.*, 94 F.3d 1575, 1577 (Fed.Cir.1996). We therefore see no reason to depart from the general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances. Accordingly, we reverse the district court's denial of MercExchange's motion for a permanent injunction.

D

MercExchange argues that the district court abused its discretion by refusing to enhance damages and award attorney fees. MercExchange asserts that the district court erred in its analysis of the factors set forth in *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 826-27 (Fed.Cir.1992). The defendants respond that the district court properly considered each of the *Read* factors. We agree with the defendants. In determining that MercExchange was not entitled to enhanced damages, the district court carefully analyzed each of the *Read* factors and based its conclusions on the jury's factual findings and evidence in the record. In analyzing those factors, the court did not abuse its discretion.

The court also addressed the relevant factors that bear on whether to award attorney fees, including "the degree of culpability of the infringer," "the closeness of the question," and "litigation behavior." *Superior Fireplace Co. v. Majestic Prods. Co.*, 270 F.3d 1358, 1378 (Fed.Cir.2001), quoting *Nat'l Presto Indus., Inc. v. W. Bend Co.*, 76 F.3d 1185, 1197 (Fed.Cir.1996). Again, the court did not abuse its discretion in applying those factors in the factual context of this case. We therefore affirm the portion of the judgment denying an award of enhanced damages or attorney fees.

Each party shall bear its own costs for this appeal.

AFFIRMED IN PART, REVERSED IN PART, VACATED IN PART, and REMANDED.

APPENDIX B

UNITED STATES DISTRICT COURT
E.D. VIRGINIA
Norfolk Division

No. CIV.A. 2:01CV736

MERCEXCHANGE, L.L.C.,
Plaintiff,

v.

eBAY, INC. and HALF.COM, INC.,
Defendants.

Aug. 6, 2003

ORDER AND OPINION

FRIEDMAN, *District Judge.*

Currently before the court are ten post-trial motions in the above-styled case; seven filed by the plaintiff and three filed by the defendants. Each motion is addressed separately below.

I. Background

On May 27, 2003, after a five-week jury trial, the jury returned a verdict finding the defendants liable for $35 million for willfully infringing the plaintiff's patents, U.S. Patent Nos. 6,085,176 ("the '176 patent") and 5,845,265 ("the '265 patent"). The court has previously discussed the nature and detail of the litigation and as such, will not reiterate it here. Following the reading of the jury's verdict, the defendants made a number of oral post-trial motions, which were to be followed up with written briefs. The plaintiff also indicated

that it would be filing various post-trial motions. The court endorsed the schedule of briefing agreed to by the parties. Accordingly, on June 12, 2003, the defendants filed three motions, including (1) Half.com's Renewed Motion for Judgment as a Matter of Law and Motion for a New Trial on the '176 Patent; (2) eBay and Half.com's Renewed Motion for Judgment as a Matter of Law and Motion for a New Trial on the '265 Patent; and (3) eBay and Half.com's Renewed Motion to Strike Testimony of Plaintiff's Damages Experts, Motion for New Trial, or Motion for Judgment as a Matter of Law. Likewise on June 12, 2003, the plaintiff filed the following motions: (1) Motion for Entry of a Permanent Injunction Order; (2) Motion to Enforce Judge Friedman's Injunction Order of February 26, 2003, and for Order to Show why Defendant eBay, Inc. Should Not be Held in Contempt for Facilitating Violations of Judge Friedman's Injunction Order of February 26, 2003; (3) Renewed Motion for Judgment as a Matter of Law; (4) Motion for Prejudgment and Postjudgment Interest; (5) Motion for Post-Verdict and Postjudgment Accounting; (6) Motion for Enhanced Damages Under 34 U.S.C. § 284 and Attorney Fees Under 35 U.S.C. § 285; and (7) Motion for Entry of Final Judgment. Responses to these motions were filed on June 23, 2003[1] and the rebuttals on June 30, 2003. As all the motions are now fully briefed, they are ripe for review.

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[1] The due date for the responses was actually June 22, 2003; however, because this fell on a Sunday, the parties had until the following Monday to file their response briefs.

II. Discussion

A. Defendants' Motions[2]

1. Half.com's Renewed Motion for Judgment as a Matter of Law and Motion for a New Trial on the '176 Patent.

In this Motion, Half.com argues that it is entitled to judgment as a matter of law ("JMOL") on noninfringement and invalidity for obviousness, and seeks a conditional new trial. While this court could go into detail as to each and every argument made by Half.com in its JMOL, the court will not do so. Half.com reargues most, if not all, of the arguments made to the jury. These arguments, while clearly persuasive in the eyes of the defendants, did not convince the jury of their theory of the case. JMOL cannot be granted against a party unless "there is no legally sufficient evidentiary basis for a reasonable jury to find for that party on that issue. . . ." Fed.R.Civ.P. 50(a). Thus, JMOL should not be granted unless

> (1) there is such a complete absence of evidence supporting the verdict that the jury's findings could only be the result of sheer surmise and conjecture or (2) there is such an overwhelming amount of evidence in favor of the movant that reasonable and fair-minded men could not arrive at a verdict against him.

Jamesbury Corp. v. Litton Indus. Prods. Inc., 756 F.2d 1556, 1558 (Fed.Cir.1985). When ruling on a motion for JMOL, a judge "must consider all the evidence in a light most favorable to the non-mover, must draw reasonable inferences favorable to the non-mover, must not determine credibility of witnesses, and must not substitute its choice for that of the jury between conflicting elements in the evidence." *Perkin-*

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[2] The court notes that the defendants' Motions are written as if they are appellate briefs. In fact, nowhere in any of the Motions or accompanying Memoranda do the defendants cite the standard for judgment as a matter of law following a jury verdict.

Elmer Corp. v. Computervision Corp., 732 F.2d 888, 893 (Fed.Cir.1984) (internal citations omitted). Given this standard, the court must deny Half.com's Motion.

a. Noninfringement

First, with respect to noninfringement, the plaintiff was required to prove by a preponderance of the evidence that the defendants' systems practiced each and every claim limitation. In order to facilitate this, the plaintiff used claim charts which its expert witnesses discussed during direct examination. While the defendants put on their own experts to contradict the testimony of the plaintiff's experts, the jury was entitled to judge the credibility of these witnesses for themselves. The fact that the defendants disagree with the plaintiff's experts' conclusions is not a basis for JMOL or a new trial. Half.com makes five main arguments as to why JMOL is required for noninfringement, including (1) that no reasonable jury could have found the '176 electronic market/trusted network limitations; (2) no reasonable jury could conclude that Half.com searches a plurality of electronic markets for an item; (3) AlBooks, TextBooksX, and Buy.com are not electronic markets or trusted networks; (4) Half.com uses a noninfringing centralized database technique with FTP files; and (5) no reasonable jury could find willfulness.

With respect to the first argument, Half.com essentially reargues this court's *Markman* ruling. Specifically, Half.com contends that it is not a trusted network but rather a person-to-person system and the court erred in not providing the jurors with the entire *Markman* Opinion. The defendants have argued this person-to-person versus trusted network issue repeatedly over the course of this litigation. At no point during the two-day *Markman* hearing did either side ask the court to define person-to-person system.[3] When the court

[3] It was the defendants who, during the *Markman* hearing and in their supporting briefs, asked this court to find that the terms auction, electronic

ruled that the plaintiff's patents envisioned a trusted system and not a person-to-person system, it was not saying that eBay or Half.com was either a trusted system or a person-to-person system. These were simply terms used by the parties throughout the hearing. Moreover, when the plaintiff raised the issue in a Motion to Reconsider its Motion to Reconsider, the defendants balked and filed a sur-reply to respond to the plaintiff's attempt to reargue *Markman*. At trial, the defendants argued that it was not a trusted system, but instead, a person-to-person system. In opposition, the plaintiff offered evidence of the various trust-enhancements that eBay and Half.com incorporated into their systems. The jury clearly found that the defendants operated trusted systems and infringed the patents. The court will not now find as a matter of law that Half.com is a person-to-person and not a trusted system.

As for the next two arguments, Half.com argues that the JMOL is required because it does not search a plurality of electronic markets for a particular item, as these terms were defined by this court. Half.com maintains that in order to be an electronic market, a participant must be able to buy, sell, search, and browse for goods online. Half.com argues that because there was insufficient evidence that sites such as Buy.com and AlBooks allow participants to sell online, they cannot be electronic markets. However, Half.com is mistaken. This court's *Markman* Opinion stated that "electronic market is construed as a trusted network or system where participants can buy, sell, search *or* browse goods online." *Markman* Opin., Dkt. 207 (Oct. 18, 2002), p. 30 (emphasis added). There was nothing in this claim construction that required the electronic market to do all four functions cited. Likewise, Half.com argues that it does not search for a unique

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market, and market for goods must exist on a trusted network or system or with a trusted intermediary. The plaintiff simply asked this court to give these terms their ordinary meaning.

or particular item and thus, cannot infringe. However, as the court ruled in its *Markman* Opinion, "an item is a good." *Id.* at p. 31. The court did not define an item as a unique or particular good. The court will not now overturn a valid jury verdict based on these arguments over the *Markman* construction.

Next, Half.com reargues its position that it does not infringe the patent because it uses a centralized database technique with FTP files. The defendants strenuously argued this point at trial, and even created a somewhat lengthy animation clip of what the Half.com system does to populate its database. The defendants' expert, Dr. Maly, walked the jury through this animation in great detail. However, it was the jury's right to accept this evidence or not. Clearly it did not. Instead, the jury relied on the deposition testimony of Mr. Balijepalli, as well as the expert testimony of Dr. Frieder. The fact that "there may have been trial evidence favorable to both sides . . . is simply irrelevant." *Shatterproof Glass Corp. v. Libbey-Owens Ford Co.*, 758 F.2d 613, 621 (Fed.Cir.1985). This does not provide a proper basis for the court to enter JMOL in favor of Half.com.

The final point raised by Half.com, which is equally applicable to the defendants' JMOL for the '265 patent, *see infra*, is Half.com's insistence that the jury erred in finding it willfully infringed the '176 patent. The plaintiff contends that because the defendants knew of its patents since at least June of 2000, and failed to obtain an opinion of counsel or conduct a patent clearing investigation, they cannot argue a good-faith belief that the patent was invalid or not infringed. The defendants, on the other hand, state that the Federal Circuit has held that the failure to obtain an opinion of counsel does not mandate a finding of willfulness. *See, e.g., Read Corp. v. Portec, Inc.*, 970 F.2d 816, 828-29 (Fed.Cir.1992), *abrogated on other grounds by Markman v. Westview Instruments, Inc.*, 52 F.3d 967 (Fed.Cir.1995); *Kloster Speedsteel AB v. Crucible, Inc.*, 793 F.2d 1565, 1579 (Fed.Cir.1986).

Moreover, the defendants argue that they were not aware that the plaintiff believed they were infringing the patents at issue based on statements made by the inventor. However, the defendants made similar arguments to the jury, who apparently did not find that they outweighed the plaintiff's evidence on willfulness. There is no dispute that the defendants failed to obtain an opinion of counsel and conduct a patent clearance investigation. Furthermore, the defendants repeatedly argued at trial that they could have designed around these patents for less than $15,000. The fact that this simple, inexpensive process would have saved the time, expense, and necessity for this litigation and yet was not done by the defendants, also weighs against them. The fact that the court ruled that the sufficiency of the evidence of willfulness was "a close call" in the defendants' first Rule 50 motion is of no consequence here. In that ruling, the court stated that "based on the defendants' notice of the patents and their duty to avoid infringement, the lack of a patent clearing policy, and the lack of a written opinion of counsel, there is sufficient evidence to allow a jury to determine willfulness." The jury apparently found the plaintiff's evidence on willfulness clear and convincing.[4] Therefore, this argument by Half.com must be denied.

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[4] Furthermore, the defendants argue in their response to the plaintiff's Motion for Enhanced Damages, *see infra*, that because the jury found the defendants' indirect infringement of the '176 patent willful, despite not finding the defendants to have indirectly infringed this patent, warrants judgment as a matter of law for the defendants on all willful determinations. The defendants maintain that the jurors were confused as to the law on willfulness and as such, their verdict on willfulness cannot be upheld. This court disagrees. The jury was confronted with a lengthy and complex 22-page verdict form, consisting of 26 questions (with 222 subquestions). The fact that an inconsistency arose in this manner does not mean that the jurors did not understand the law as this court instructed. While the court finds that there is no willfulness on the indirect infringement of the '176 patent claims, the court will not make such a finding on the remainder of the claims.

b. Invalidity

Second, Half.com cites three main reasons why its Motion for JMOL should be granted with respect to invalidity of the '176 patent claims. These include (1) the plaintiff blocked the date of invention instructions; (2) the plaintiff misstated the motivation to modify standard; and (3) the evidence presented with respect to obviousness was clear and convincing.

With respect to the date of invention, the court has to admit its surprise at this argument, given the relative lack of objection to the jury instruction on this issue. The court told the attorneys that it would modify the Federal Circuit Bar Association Model Patent Jury Instructions for use in this case.[5] A few days prior to the charging conference, the court gave the attorneys copies of the final set of jury instructions. At the charging conference, the parties were able to raise any objections to this set of instructions. The defendants did not state that the court erroneously omitted the date of invention paragraph from the model instructions at this time or any time prior to this Motion. Rather, the defendants offered another instruction on corroboration of the date of invention, which this court found was not adequately supported by the caselaw cited. Moreover, there were numerous instances in the jury instructions relating to prior art where the date of invention is discussed with the jury. There is no indication that the jury rejected the defendants' invalidity defense based on the date of the invention, as neither side asked for this question to be offered on the verdict form. In fact, the defendants' objected to the plaintiff's proposed verdict form where they sought a list of the prior art references that the jury considered for each invalidity allegation. The court agreed with the defendants and removed these questions from the verdict form. The defendants now appear to be seeking to benefit from the court's

[5] The court notes that it relied primarily on the Federal Circuit Bar Association Model Patent Jury Instructions, which did not contain an instruction on corroboration of the date of invention.

ruling in their favor on this issue. The fact that the jury did not receive an instruction on the corroboration of the date of invention does not, in and of itself, require that JMOL be granted. Therefore, this argument does not mandate JMOL for Half.com.

As to the second ground for JMOL of obviousness, Half.com argues that the plaintiff mischaracterized the motivation to modify standard and misled the jury to believe that (1) the nature of the problem to be solved could not provide the motivation to modify, and (2) the prior art inventor must himself recognize the motive to modify. Half.com relies on *SIBIA Neurosciences, Inc. v. Cadus Pharmaceutical Corp.*, 225 F.3d 1349, 1358 (Fed.Cir.2000). Specifically, Half.com contends that the following statement given by the plaintiff "urged the jury to commit plain error:"

> What does it mean for one skilled in the art to say that they're motivated to combine two or more, in some cases, in this case four different prior art references to render a claim invalid? It simply means this: That someone skilled in the art would be looking to solve a problem that is not solved by the current invention. You saw Mr. Nahan talk about his invention. As I saw that video, I didn't see that he thought there was any problem remaining to be solved. He thought that he had solved the problem that he was trying to solve. He liked the idea that sellers could back out of a transaction, that there was no finality. He liked the idea that you had to go offline to consummate that transaction. . . . Here you had an invention that was essentially designed to do exactly what it was designed to do. And so there's no motivation there.

Dkt. 556, p. 19 (quoting Trial Transcript 3607:21-3608-16). In *SIBIA*, the Federal Circuit rejected the patentee's argument that the prior art inventors were thinking about an entirely different application and that the motivation to combine was

not on the minds of the prior art inventors. 225 F.3d at 1358. However, the plaintiff's statement was made during closing arguments, which the court instructed were not evidence. The court provided the jury with an instruction on motivation. *See* Jury Instruction No. 54 ("In deciding whether to combine what is described in various items of prior art, you should keep in mind that there must be some motivation or suggestion for a person of ordinary skill in the field of the invention to make the combination covered by the patent claims. For each claim, you should also consider whether or not any of the prior art items "teach away" from the invention covered by the patent claim. The question to be answered is: Would someone reading the prior art be discouraged from following the path taken by the inventor?"). The court must assume that the jury follows the instructions they are given. Half.com has no evidence that the jury failed to consider this instruction but instead relied on comments made by the plaintiff during closing arguments. As such, there is no grounds for a JMOL or a new trial.

Finally, Half.com posits that the evidence of invalidity was clear and convincing. However, the jury did not agree. The jury heard evidence from all the expert witnesses in this case and was given volumes of documents to review during their deliberations. They clearly did not find the defendants proved invalidity by clear and convincing evidence. When the evidence on invalidity is viewed in the light most favorable to the plaintiff, the court cannot find that there was a complete absence of evidence supporting the verdict that the jury's findings could only be the result of sheer surmise and conjecture, or that there was such an overwhelming amount of evidence in favor of Half.com that reasonable and fair-minded jurors could not arrive at a verdict against it. Therefore, Half.com's Motion for JMOL and/or a New Trial on invalidity is denied.

2. eBay and Half.com's Renewed Motion for Judgment as a Matter of Law and Motion for a New Trial on the '265 Patent.

In the defendants' second Motion, they again argue that JMOL is required of noninfringement and invalidity of the '265 patent, and that a new trial is compelled based on inadmissible evidence and misleading arguments presented to the jury by the plaintiff. Using the standard set forth above, the court will address some of the issues raised by the defendants.

a. Noninfringement

Similar to above, the defendants rely on a number of general reasons why JMOL is necessitated for noninfringement of the '265 patent. First, the defendants argue that the plaintiff blocked the jury from full consideration of the *Markman* Opinion. As discussed above, the jury was provided with the claims constructions as determined by this court. The jury was not given, over objection by the defendants, the analysis of the court in arriving at those claims constructions. The defendants somehow believe that the court ruled they were person-to-person systems. The court did no such thing. In fact, when the defendants filed their post-*Markman* motions for summary judgment, the court denied the one pertaining to the '265 patent because it held that one of the key issues that remained in dispute was "whether eBay is a trusted network." Order and Opinion, Feb. 14, 2003, p. 5. For the defendants to now argue that they were surprised or unprepared for trial on this issue is somewhat disingenuous. The court never explicitly defined what a trusted system must have versus what a person-to-person system encompasses. The plaintiff offered a great amount of evidence to prove to the jury that the defendants are indeed trusted networks, including escrow services, conflict resolution services, insurance, payment intermediaries, authentication services, feedback forum, and the policing of the

system. This evidence was certainly sufficient to meet the plaintiff's burden by a preponderance of the evidence. Therefore, the defendants' argument on this ground must fail.

The defendants also argue that the court failed in providing the jury with the specific provision of the UCC on the legal issue of transfer of ownership. This issue was sprung on Dr. Weaver during cross-examination and was never presented to the court before trial as a triable issue. Never in the *Markman* Opinion, or any other opinion issued by this court in this case, did the court hold that transfer of ownership implicated the UCC. It was not an error requiring JMOL for the court to have refused this jury instruction. The defendants make a number of other arguments regarding whether or not their systems perform the functions of the '265 patent, including notifying the owner and authorizing the posting terminal. However, these same arguments were made to the jury. The plaintiff offered counter evidence to dispute the defendants' contentions, such as the fact that the defendants place "hashed cookies" on the user's terminal. The fact that the jury did not agree with the defendants' evidence does not necessitate a JMOL. This court cannot say, as a matter of law, that no reasonable jury could have ruled against the defendants. As such, the defendants' motion for JMOL on Noninfringement is denied.[6]

b. Invalidity

The defendants again argue that JMOL is required because the court failed to give a date of invention instruction to the jury. As the court addressed this issue with respect to the invalidity argument for the '176 patent, *see supra* section II.A.1.b, the court will not reiterate it here. In addition to the arguments made above, the court notes that the plaintiff did

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[6] The defendants also argue that JMOL of willfulness is required. The court addressed this issue when it was raised in the '176 motion and will not repeat that reasoning here.

indeed attack the merits of the defendants' prior art references and the failure of the defendants' witnesses to show how the prior art invalidated each of the claims of the '265 patent, despite the fact that the defendants argue otherwise. The defendants had the burden to prove invalidity by clear and convincing evidence. The court believes that the jury was entirely reasonable in finding that the defendants did not meet their burden, with or without the date of invention instruction. Therefore, the court denies the defendants' JMOL on invalidity.[7]

c. New Trial

The defendants recite a laundry list of 17 reasons why this court should grant them a new trial. *See* Dkt. 557, pp. 2-3. There was little, if any, argument on the majority of these reasons in the defendants' supporting memorandum, and the plaintiff responded with just as little argument in opposition. Therefore, the court will not spend considerable time addressing them. After full consideration of the reasons, despite the essentially non-existent supporting argument, the court denies the defendants' request.

3. eBay and Half.com's Renewed Motion to Strike Testimony of Plaintiff's Damages Experts, Motion for New Trial, or Motion for Judgment as a Matter of Law.

In their final motion, the defendants renew the motion made during trial to strike the testimony of Messrs. Troxel

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[7] The defendants also argue that the plaintiff misstated the law on the defendants' section 112 defense which likely caused the jury to disregard Dr. Crocker's testimony because he had never looked at the '265 patent claims. However, this is pure speculation, as the jury deliberated for three days on the numerous issues put to them in the special verdict form. It is very possible that the jury simply didn't find Dr. Crocker credible, or felt that his testimony didn't help the defendants meet their burden by clear and convincing evidence. Therefore, JMOL on this ground is similarly denied.

and Evans as it does not meet the standard set forth in Federal Rule of Evidence 702 or *Daubert v. Merrell Dow Pharm., Inc.*, 509 U.S. 579, 113 S.Ct. 2786, 125 L.Ed.2d 469 (1993). In addition, based on a number of other errors and inconsistencies with respect to the jury's damages award, the defendants argue that the court should order a new trial on damages. The court will address each of the grounds of this Motion in turn.

a. Expert Testimony

The defendants argue that these experts used gross merchandise sales ("GMS") as the royalty base in computing the reasonable royalty due to the plaintiff for the defendants' infringement of the patents at issue. Specifically, the defendants contend that the court should strike the testimony and grant either a new trial or judgment as a matter of law because Mr. Evans and Mr. Troxel admitted that they (1) had never used GMS as a royalty base before; (2) had never seen GMS used as a base before; (3) conducted no studies to determine the reliability of GMS; (4) were not aware of any studies testing GMS reliability; and (5) did not know whether $2 billion worth of goods listed on eBay and assumed sold were included in GMS. The plaintiff counters, arguing that the experts properly applied the *Georgia-Pacific* factors to compute the reasonable royalty and the defendants are merely attacking the experts' factual conclusions rather than their methodology. *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F.Supp. 1116 (S.D.N.Y.1970), *modified and affirmed*, 446 F.2d 295 (2d Cir.1971).

Rule 702 provides that expert testimony is admissible only if "(1) the testimony is based upon sufficient facts or data; (2) the testimony is the product of reliable principles and methods; and (3) the witness has applied principles and methodology reliably to the facts of the case." Fed.R.Evid. 702; *see also Daubert*, 509 U.S. at 591, 113 S.Ct. 2786. In *Daubert*, the Court charged trial judges with the respons-

ibility of acting as gatekeepers to exclude unreliable expert testimony. *Daubert* set forth a non-exclusive checklist for courts to use in assessing the reliability of expert testimony, including:

(1) whether the expert's technique or theory can be or has been tested—that is, whether the expert's theory can be challenged in some objective sense, or whether it is instead simply a subjective, conclusory approach that cannot reasonably be assessed for reliability;

(2) whether the technique or theory has been subject to peer review and publication;

(3) the known or potential rate of error of the technique or theory when applied;

(4) the existence and maintenance of standards and controls; and

(5) whether the technique or theory has been generally accepted in the scientific community.

509 U.S. at 592-95, 113 S.Ct. 2786. The Court later emphasized that the *Daubert* inquiry is "a flexible one" and that the analysis will depend on the nature of the issue, the witness's expertise, and the subject of the testimony. *Kumho Tire Co. v. Carmichael,* 526 U.S. 137, 150, 119 S.Ct. 1167, 143 L.Ed.2d 238 (1999). The Court also explained that the principles of *Daubert* apply not only to scientific testimony, but to all expert testimony. *Id.* at 149, 119 S.Ct. 1167. Rule 702 was amended in 2000 to comport with the principles set forth in *Daubert* and *Kumho Tire.*[8]

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[8] The Advisory Committee Notes to Rule 702 list some other factors courts have considered relevant in determining whether the expert testimony is sufficiently reliable. These include:

(1) Whether experts are proposing to testify about matters growing naturally and directly out of research they have conducted in-

As the court stated during trial when this issue arose, the first prong of Rule 702 requires that the testimony is based upon sufficient facts or data. In this case, Mr. Evans[9] stated that he chose GMS as a royalty base because, based on his expertise in the area of patent licensing, it was the most reliable figure, it was used in eBay's own financial reports, it was used in other MercExchange license agreements,[10] and, in his opinion, it was more reliable in the e-commerce field. His reasons for using this basis, as well as his reasons for not using another basis such as revenue, were challenged on cross-examination by the defendants. *See Daubert,* 509 U.S. at 595, 113 S.Ct. 2786 ("[v]igorous cross-examination, presentation of contrary evidence, and careful instruction on

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dependent of the litigation, or whether they have developed their opinions expressly for purposes of testifying.

(2) Whether the expert has unjustifiably extrapolated from an accepted premise to an unfounded conclusion. *See General Elec. Co. v. Joiner,* 522 U.S. 136, 146, 118 S.Ct. 512, 139 L.Ed.2d 508 (1997).

(3) Whether the expert has adequately accounted for obvious alternative explanations. *See Claar v. Burlington N.R.R.,* 29 F.3d 499 (9th Cir.1994).

(4) Whether the expert is being as careful as he would be in his regular professional work outside his paid litigation consulting.

(5) Whether the field of expertise claimed by the expert is known to reach reliable results for the type of opinion the expert would give.

[9] It was Mr. Evans who determined that GMS was an appropriate royalty base in this case. Mr. Troxel simply applied that to the defendants' specific financial information. Therefore, the court will focus on Mr. Evans' testimony with respect to this Motion.

[10] While it is true that GMS was not used in the plaintiff's other licensing agreements, as was discovered during the cross-examination of Mr. Evans and Mr. Troxel, the jury was able to consider the other factors given by Mr. Evans as to why he used GMS. They were entitled to give whatever weight they thought appropriate to this decision.

the burden of proof are the traditional and appropriate means of attacking shaky but admissible evidence."). Thus, his decision to use GMS was able to be challenged by the defendants. What remained was whether the jurors found his reasons for using GMS credible.

The second prong of Rule 702 requires that the testimony is the product of reliable principles and methods. The Federal Circuit has repeatedly "endorsed the conceptual framework of a hypothetical negotiation between patentee and infringer as a means for determining a reasonable royalty." *Micro Chemical, Inc. v. Lextron, Inc.*, 317 F.3d 1387, 1393 (Fed.Cir. 2003)[11] (quoting *Interactive Pictures Corp. v. Infinite Pictures, Inc.*, 274 F.3d 1371, 1384 (Fed.Cir.2001)). While the defendants disagree that during such a hypothetical negotiation they would have agreed to any royalty based on GMS as opposed to revenue, this was a question of fact for the jury to decide. As the Advisory Committee notes, *Daubert* was "not intended to serve as a replacement for the adversary system." Finally, the third prong of 702 requires that the witness has applied principles and methodology

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[11] In *Micro Chemical*, the Federal Circuit was asked to decide whether the testimony of a damages expert should have been excluded based on the use of an unreliable method to obtain a reasonable royalty. 317 F.3d at 1393. In affirming the district court's decision to allow the expert to testify, the Federal Circuit stated that the expert had "properly applied the accepted *Georgia-Pacific* methodology to [the plaintiff's] version of the disputed facts, explaining the effect each factor would have on a negotiated royalty." *Id.* While the defendants continued to argue that the court should not have permitted the expert to consider sales of the defendants' other products in arriving at a reasonable royalty, the court held that because the expert properly utilized the *Georgia-Pacific* test in arriving at his opinions, his analysis as to the reasonable royalty was a "factual issue" and "not grounds for excluding his testimony under Rule 702." *Id.* Likewise here, Mr. Evans explained why he chose to use GMS rather than revenue as a royalty base in arriving at his reasonable royalty. While the defendants may disagree with his theory of damages, it was a factual issue for the jury to decide.

reliably to the facts of the case. As stated above, Mr. Evans chose GMS based on the analysis of the defendants' financial reports. It was his opinion that in this case, GMS was a more reliable and accurate number than revenue, especially since eBay itself uses GMS to calculate its commission for the sale of the items. While it may be true that the experts were unsure whether GMS included failed transactions, the defendants were given a full opportunity to cross-examine them on this issue. The jury clearly chose to believe that the experts were reasonable in choosing GMS.

Furthermore, Mr. Evans has negotiated numerous license agreements and has testified as an expert in many other disputes where a reasonable royalty is utilized. As stated in the Advisory Committee Notes, "[i]f the witness is relying solely or primarily on experience, then the witness must explain how that experience leads to the conclusion reached, why that experience is a sufficient basis for the opinion, and how that experience is reliably applied to the facts." Thus, while Mr. Evans' experience in and of itself is insufficient to form a reliable opinion, his experience along with his explanations as to how he applied his experience to the facts of this case is sufficient to meet the *Daubert* test. For example, while Mr. Evans himself may never have used GMS in calculating a reasonable royalty, his reasons for choosing GMS in this case appear to meet the threshold level required under *Daubert*. The defendants' argument that GMS is not a common royalty base is not sufficient to exclude the testimony under *Daubert*. *See generally Daubert v. Merrell Dow Pharmaceuticals, Inc.*, 43 F.3d 1311, 1318 (9th Cir.1995) (scientific experts might be permitted to testify if they could show that the methods they used were also employed by "a recognized minority of scientists in their field."). In addition, whether or not Mr. Evans or Mr. Troxel performed studies or surveys to determine whether the use of GMS was appropriate in this case is insufficient to exclude the testimony.

Therefore, because the defendants were able to cross-examine Mr. Evans and Mr. Troxel on their methods and principles in arriving at their opinions, what remained was a question of fact for the jury to decide. The defendants offered the testimony of Mr. Weinstein to counter the plaintiff's experts. Mr. Weinstein offered four alternative amounts for damages, including (1) $14,500, which reflects the design-around cost;[12] (2) $50,000, which reflects the valuation of the plaintiff-company for tax purposes; (3) $2.5 million, which amounts to the valuation of the plaintiff-company in a stock exchange with Aden Enterprises; and (4) $2.4 million, which utilizes the royalty rate determined by Mr. Evans and applies it to the defendants' revenue as opposed to GMS. The jury was entitled to weigh the experts' credibility and determine whether the use of GMS was appropriate in this case. This does not represent testimony that was so unreliable as to warrant its exclusion by the court. Therefore, the defendants' Renewed Motion to Strike the Testimony is denied.

b. Resubmission of Verdict Form to Jury

When the jury initially came back with a verdict, the court reviewed it and noted an inconsistency. Specifically, the jury found no indirect infringement of the '176 patent by either defendant, and yet, awarded a total of $5 million in damages for this infringement. The court informed the jury of this inconsistency in general terms, referring only to the page numbers relating to the inconsistency. The parties did not object to this at the time. Shortly thereafter, the jury sent a note to the court, asking if they could adjust the other

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[12] Mr. Weinstein testified that eBay could design around the claims of the '265 patent in 200 hours, and that Half.com could design around the claims of the '265 patent in 100 hours and the claims of the '176 patent in 100 hours. Tr. 2525:12-14. When multiplied by the cost per hour that would have been incurred, Mr. Weinstein arrived at a total of $14,500 for the defendants to completely design around the claims of the two patents at issue. Tr. 2525:15-19.

damages figures after curing the inconsistency. The court permitted them to do this. Again, there were no objections from either party at this time. When the jury finally returned with the verdict, they had increased the damages for the direct infringement of the '265 patent by $5 million. The defendants now argue that the court erred by resubmitting the verdict form to the jury to be amended. The defendants rely on the Fourth Circuit case of *McCollum v. Stahl*, 579 F.2d 869 (4th Cir.1978).

In *McCollum*, the plaintiffs sued the defendant for alleged violations of their constitutional rights pursuant to 42 U.S.C. § 1983. *Id.* at 869. When the jury returned their verdict, they found that the defendant was not liable for his actions; however, they awarded punitive damages for his malicious conduct. *Id.* at 870. Noting the inconsistency, the court resubmitted the verdict to the jury with the instructions that if they answered no to the liability question, they were not to answer any further questions. *Id.* Upon returning, the jurors found the defendant liable for his actions and awarded damages. *Id.* at 871. On appeal, the Fourth Circuit held that because the special verdict was prepared pursuant to Federal Rule of Civil Procedure 49(a), "the resubmission was procedurally impermissible." *Id.* The court held that "the remand of the questions to the jury was tantamount, in its effect, to a direction to the jury to find liability in order to warrant the award of damages." *Id.*

However, this case can be distinguished from *McCollum*. First, when the court resubmitted the verdict form to the jury, the court did not further instruct the jury as to how to complete the form. Rather, the court merely noted the pages that the errors were on and told the jurors to read the instructions therein carefully. Other courts have noted their approval of resubmitting a verdict form to the jury where errors were made despite explicit instructions on the form. *See, e.g., Duk v. MGM Grand Hotel, Inc.*, 320 F.3d 1052,

1057 (9th Cir.2003). Second, the jury did not change their finding on liability in order to award damages. This circuit has distinguished *McCollum* in instances where "[r]esubmission did not direct the jury to find liability." *Taylor v. Home Ins. Co.*, 777 F.2d 849, 858 (4th Cir.1985); *see also Hafner v. Brown*, 983 F.2d 570, 575 (4th Cir.1992) ("If the district judge concludes that an inconsistent verdict reflects jury confusion or uncertainty, he or she has the duty to clarify the law governing the case and resubmit the verdict for a jury decision."). Therefore, this court finds that the resubmission of the verdict to clarify an inconsistent verdict was not erroneous. The defendants' Motion for a New Trial on this ground is denied.

c. Damage Award in Excess of Reasonable Royalty

The defendants also argue that because damages awarded were greater than that found to be reasonable by these experts, that the damages are not supported by substantial evidence. For example, the defendants note that the plaintiff asked for $3,960,518 for Half.com's direct infringement of the '265 patent, relying on the experts' opinions as to a reasonable royalty. However, the jury awarded the plaintiff $14.5 million in damages for Half.com's direct infringement of the '265 patent. The defendants point out that this is 3.5 times the amount that the plaintiff's experts said was appropriate and reasonable. In total, the defendants maintain that the jury verdict represents damages that are $15,824,834 over the amount the plaintiff's experts found reasonable.

Once patent infringement is found, a jury may award a patentee "damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer." 35 U.S.C. § 284. The Federal Circuit has held that "[t]he objective of the reasonable royalty calculation is to determine the amount necessary to adequately compensate for an infringement." *Maxwell v. J. Baker, Inc.*, 86 F.3d 1098, 1109 (Fed.Cir.1996).

In other words, the reasonable royalty represents the floor to damages, not the ceiling. "A reasonable royalty calculation envisions and ascertains the results of a hypothetical negotiation between the patentee and the infringer at the time before the infringing activity began." *Integra Lifesciences I, Ltd. v. Merck KGaA*, 331 F.3d 860, 869 (Fed.Cir.2003) (citing *Riles v. Shell Exploration & Prod. Co.*, 298 F.3d 1302, 1311 (Fed.Cir.2002)). "This 'hypothetical negotiation' is often referred to as a willing licensor and licensee negotiation. However, . . . this is an 'absurd' characterization of the determination when the parties were previously unable to come to an agreement, i.e., were not 'willing' . . . ." *Maxwell*, 86 F.3d at 1109 (citing *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1554 (Fed.Cir.1995)). As a result of this reality,

> the fact finder may consider additional factors to assist in the determination of adequate compensation for the infringement. These factors include royalties received by the patentee for the licensing of the patent in suit, opinion testimony of qualified experts, the patentee's relationship with the infringer, and other factors that might warrant higher damages. The fact that an infringer had to be ordered by a court to pay damages, rather than agreeing to a reasonable royalty, is also relevant.

Id. at 1109-1110 (citing *Georgia-Pacific*, 318 F.Supp. at 1120).

Based on this, the court finds that the jury was entitled to calculate an amount they believed compensated the plaintiff for the defendants' infringement. That this amount is greater than the plaintiff asked for is of no consequence. The jury was entitled to consider these other factors in determining what amount of damages would compensate the plaintiff. *See Maxwell*, 86 F.3d at 1110 (finding that the jury was entitled to award additional damages to adequately compensate the plaintiff). As such, the defendants' Motion for a New Trial on this ground is denied.

d. ReturnBuy Issues: Double Counting and Post-License Damages

Finally, the defendants argue that the damages awarded based on eBay's inducement of ReturnBuy's infringement are improper for two reasons. First, the defendants contend that because ReturnBuy is a "power seller" on eBay, all of their GMS are included in eBay's GMS calculation and thus, awarding separate damages amounts to double counting. The plaintiff argues that the separate damages awarded based on eBay's inducement of ReturnBuy are appropriate because ReturnBuy (1) expected a commission of between 20% and 50% of their fixed-price GMS, and (2) was a power seller with direct access to eBay's web site which allowed it to post goods for sale in bulk on eBay. However, these arguments would only prevail if revenue were used as the royalty base because ReturnBuy would have had a separate revenue figure. As stated above, GMS was used and as such, the plaintiff cannot now receive damages on the same act of infringement. ReturnBuy lists goods on eBay and therefore, those goods are incorporated into eBay's GMS. To allow Mr. Troxel to then compute what ReturnBuy's GMS may have been (as no actual number was available) and assess more damages on that GMS is improper. Therefore, the damages awarded to the plaintiff for eBay's inducement of ReturnBuy to infringe the '265 patent, $5.5 million, will be stricken from the jury's damage award.

The defendants also argue that because ReturnBuy entered into a license agreement with the plaintiff in December of 2002, yet Mr. Troxel included damages up to March of 2003, the plaintiff should not be entitled to those additional three months of damages. However, as the plaintiff pointed out, neither party asked the court for a special verdict form broken down by months of infringement. As such, the defendants have waived this argument.

B. Plaintiff's Motions

1. Motion for Entry of a Permanent Injunction Order.

In the plaintiff's first motion, it seeks a permanent injunction order to prevent the defendants from further infringing on its patents. The plaintiff has prepared a Proposed Permanent Injunction Order ("Proposed Order"), which it has supplied to the court. The defendants object to the grant of a permanent injunction order in general, and raise specific objections to the plaintiff's Proposed Order as being vague and overly broad. The defendants also note that if the court grants an injunction, they reserve the right to move to stay such an injunction pending appeal.

Once infringement and validity of the patents have been established, a district court is authorized to grant a permanent injunction against the infringer. 35 U.S.C. § 283. In fact, the grant of injunctive relief against the infringer is considered the norm; however, the decision to grant or deny injunctive relief remains within the discretion of the trial judge. *See W.L. Gore & Assoc., Inc. v. Garlock, Inc.*, 842 F.2d 1275, 1281 (Fed.Cir.1988); *see also Odetics, Inc. v. Storage Tech. Corp.*, 14 F.Supp.2d 785, 788 (E.D.Va.1998), *aff'd*, 185 F.3d 1259 (Fed.Cir.1999) ("The issuance of an injunction following a verdict of infringement is not automatic; however, district courts must instead follow the traditional equitable principles that guide the decision whether to enjoin certain conduct."). The Federal Circuit has indicated that "an injunction should issue once infringement has been established unless there is a sufficient reason for denying it." *W.L. Gore*, 842 F.2d at 1281. The rationale behind this stems from the concept of the property rights of patent holders. "It is contrary to the laws of property, of which the patent law partakes, to deny the patentee's right to exclude others from use of his property. The right to exclude recognized in a patent is but the essence of the concept of property." *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1246-47

(Fed.Cir.1989). "Issuance of injunctive relief against [the defendants] is governed by traditional equitable principles, which require consideration of (i) whether the plaintiff would face irreparable injury if the injunction did not issue, (ii) whether the plaintiff has an adequate remedy at law, (iii) whether granting the injunction is in the public interest, and (iv) whether the balance of the hardships tips in the plaintiff's favor." *Odetics,* 14 F.Supp.2d at 794 (citing *Weinberger v. Romero-Barcelo,* 456 U.S. 305, 312, 102 S.Ct. 1798, 72 L.Ed.2d 91 (1982)).

a. Irreparable Harm

The plaintiff argues that it will suffer irreparable harm if an injunction does not issue as the defendants will continue to infringe on its property rights. Courts have held that when, as here, "validity and continuing infringement have been clearly established . . . immediate irreparable harm is presumed." *Odetics,* 14 F.Supp.2d at 794 (quoting *Smith Int'l Inc. v. Hughes Tool Co.,* 718 F.2d 1573, 1581 (Fed.Cir.1983)). Notwithstanding the presumption of irreparable harm, the plaintiff notes a number of specific ways in which it will be harmed if the defendants are not enjoined from their infringing conduct. These include being "deprived of its ability to either pursue the development of its inventions under the protection of its patent rights, or to have the exclusive right to license its patented technology to others on the most beneficial terms available." Dkt. 562, p. 6.

The defendants, on the other hand, maintain that infringement and validity were not "clearly established" as the court indicated it had some reservations as to the plaintiff's case when it ruled upon the defendants' initial Rule 50 Motion. However, as courts have repeatedly held, "a clear showing of validity and infringement is satisfied where those issues have been tried and the fact-finder has determined that the patent in question was infringed and is not invalid." *Boehringer Ingelheim Vetmedica, Inc. v. Schering-Plough Corp.,* 106

F.Supp.2d 696, 701(D.N.J.2000) (citing *Polymer Tech., Inc. v. Bridwell*, 103 F.3d 970, 973 (Fed.Cir.1996) and *Reebok Intern. Ltd. v. J. Baker, Inc.*, 32 F.3d 1552, 1556 (Fed. Cir.1994)). In this case, the jury has spoken and the court has denied the defendants' motions for judgment as a matter of law and for a new trial. Therefore, the clear showing of validity and infringement has been met.

However, as the defendants point out, this merely establishes a presumption of irreparable harm. This presumption may be rebutted by factors such as whether the infringer has ceased its infringing activity, whether the patentee has granted licenses in the past such that it can be compensated for the infringement, and whether the patentee delayed in bringing the lawsuit. *Id.* at 701-702 (citing *Polymer*, 103 F.3d at 974). In order to rebut this presumption, the defendants first argue that they do not practice the infringing acts of the '176 and '265 patents. However, as this court previously stated, a jury has spoken on this issue and thus, this argument is not persuasive. The defendants next argue that there was evidence adduced at trial proving that the plaintiff is willing to license or sell its patents. On this point, the defendants are correct. Substantial evidence was adduced at trial showing that the plaintiff does not practice its inventions and exists merely to license its patented technology to others. Indeed, the plaintiff has made numerous comments to the media before, during, and after this trial indicating that it did not seek to enjoin eBay but rather sought appropriate damages for the infringement.[13] The Federal Circuit has observed that

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[13] *See, e.g.*, Article, Patent Suit Could Sting eBay, Sept. 5, 2002 at *http://news.com.com/2100-1017-956638.html* ("We are seeking reasonable royalties as permitted under the patent laws. It's not our goal to put eBay out of business. It's our goal to provide just compensation for the patent owner.") (quoting Scott Robinson, attorney for MercExchange); Article, eBay-Contested MercExchange Patents are on the Block, May 30, 2003 at *http://www.auctionbytes.com/cab/abn/y03/m05/i30/s01* ("[I]t is

"the lack of commercial activity by the patentee is a significant factor in the calculus" of whether the patentee will suffer irreparable harm absent an injunction. *High Tech Medical Instrumentation, Inc. v. New Image Indus., Inc.*, 49 F.3d 1551, 1556 (Fed.Cir.1995). In the case at bar, the evidence of the plaintiff's willingness to license its patents, its lack of commercial activity in practicing the patents, and its comments to the media as to its intent with respect to enforcement of its patent rights, are sufficient to rebut the presumption that it will suffer irreparable harm if an injunction does not issue. Moreover, the plaintiff never moved this court for a preliminary injunction. If it believed that it was suffering irreparable harm by the defendants' continued infringement of its patents, such a motion would have been appropriate. This fact, while certainly not dispositive of the issue, lends additional weight in support of the defendants' arguments that the plaintiff will not be irreparably harmed absent an injunction. Therefore, after consideration of all the facts in this case, the court believes that the plaintiff will not suffer irreparable harm if the injunction does not issue. As such, this factor tips against an injunction.

b. Adequate Remedy at Law

The plaintiff argues that it has no adequate remedy at law. The plaintiff points to an excerpt from a Federal Circuit case stating that

> [w]ithout the injunctive power of the courts, the right to exclude granted by the patent would be diminished, and the express purpose of the Constitution, to promote the progress of the useful arts, would be seriously undermined. The patent owner would lack much of the leverage, afforded by the right to exclude, to enjoy the full

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not our goal to enforce these patents, we want to sell off our Intellectual Property rights.") (quoting Mr. Woolston, inventor of the patents at issue).

> value of his invention in the market place. Without the right to obtain an injunction, the right to exclude granted to the patentee would have only a fraction of the value it was intended to have, and would no longer be as great an incentive to engage in the toils of scientific and technological research.

Smith Int'l, 718 F.2d at 1577-78. On the other hand, the defendants note that money damages are an adequate remedy to compensate the plaintiff for any continuing infringement. *See Foster v. American Mach. & Foundry Co.*, 492 F.2d 1317, 1324, 182 U.S.P.Q. 1 (2d Cir.1974) (finding that a compulsory royalty was the appropriate remedy); *Boehringer*, 106 F.Supp.2d at 704 ("This is not to say that money damages are never adequate . . ."). As stated above, the plaintiff has licensed its patents to others in the past and has indicated its willingness to license the patents to the defendants in this case. *See supra* n. 13. The Federal Circuit has held that evidence showing that the patent holder is willing to license his patent rights "suggests that any injury suffered by [the patent holder] would be compensable in damages assessed as part of the final judgment in the case." *High Tech*, 49 F.3d at 1557. While the court is aware that many cases state that monetary damages are typically inadequate because it limits the patent holder from exercising its monopoly power, this is certainly an atypical case. Therefore, the court finds that in this particular case, the plaintiff has an adequate remedy at law, a factor weighing against the injunction.

c. Public Interest

As Judge Ellis stated in *Odetics*, "[t]he public-interest factor often favors the patentee, given the public's interest in maintaining the integrity of the patent system." 14 F.Supp.2d at 795. While this is certainly the norm, there are instances where it is not in the public interest to enjoin the infringer's activities. For example, courts have denied injunctions where

the infringed product was necessary for medical purposes. *See, e.g., Datascope Corp. v. Kontron, Inc.*, 786 F.2d 398, 401 (Fed.Cir.1986) (catheter used for treatment of heart patients). Courts have also declined to enjoin an infringer's actions where the granting of an injunction would cause the infringer "irreparable hardship . . . , without any concomitant benefit to the patentee," finding such a result to be "inequitable." *Foster*, 492 F.2d at 1324. The plaintiff argues that in this case, there is not countervailing public interest that would be served through a denial of an injunction. The defendants disagree. The defendants argue that the public interest is not furthered by enjoining activities based on improvidently granted patents, again stating that because this court called the infringement and validity issues "close calls," the patents are suspect and an injunction should not issue. However, the jury returned a verdict upon which this court will enter judgment. Thus, this argument does not show that the public interest is in favor of denying the injunction.

The defendants also argue that because there is a growing concern over the issuance of business-method patents, which forced the PTO to implement a second level review policy, *see, e.g.*, Testimony of Q. Todd Dickinson, Tr. 1203:8-1204:22, and caused legislation to be introduced in Congress to eliminate the presumption of validity for such patents, *see, e.g.*, Business Method Improvement Act of 2001, H.R. 1332, 107th Cong., Apr. 3, 2001, the public interest would not be served by such an injunction. While this argument is certainly not dispositive, it lends significant weight against the imposition of an injunction, particularly in this case where the patentee does not practice its patents, nor has any intention of practicing its patents. Moreover, in a case such as this, the public does not benefit from a patentee who obtains a patent yet declines to allow the public to benefit from the inventions contained therein. *See, e.g.*, Testimony of Q. Todd Dickinson, Tr. 1131: 8-10 (stating that the ability to patent an invention via the patent system is important "[b]ecause it

allows other people to improve that invention, to build on it, and so building moves all technology, moves the system forward . . . ."). In sum, the court believes the public interest factor equally supports granting an injunction to protect the plaintiff's patent rights, and denying an injunction to protect the public's interest in using a patented business-method that the patent holder declines to practice.

d. Balance of the Hardships

As expected, each party argues that the balance of the hardships tips in their favor. Upon review of the record and factors listed above, the court is of the opinion that the balance tips slightly in the defendants' favor. The plaintiff's patents have been found valid and willfully infringed by the defendants. While it is important to respect the rights of the patent holder, in this case, the plaintiff exists solely to license its patents or sue to enforce its patents, and not to develop or commercialize them. Any harm suffered by the plaintiff by the defendants' infringement of the patents can be recovered by way of damages. *See generally Foster*, 492 F.2d at 1324 (affirming district court's denial of permanent injunction where, after assessing the relative equities, the court properly concluded that the patentee would benefit from a compulsory royalty). If the court did enjoin the defendants here, the court would essentially be opening a Pandora's box of new problems. This case has been one of the more, if not the most, contentious cases that this court has ever presided over. From day one the parties have been unable to agree on anything, in fact, the only agreed stipulation at trial was that this court had subject matter jurisdiction. The court predicts that if it granted the plaintiff's request for a permanent injunction, the battle would continue to be as contentious as ever. For example, the defendants have argued that they can design around the patents with relative ease. The plaintiff, on the other hand, continues to strenuously assert that such a design around is impossible. *See* Dkt. 593, p. 7 ("MercExchange, of

course, does not believe the proposed 'design-arounds' avoid infringement . . . . Nothing, however, prevents Defendants from implementing a 'true' design-around of the patents, if they can. But the evidence to date suggests that they cannot."). The court envisions contempt hearing after contempt hearing requiring the court to essentially conduct separate infringement trials to determine if the changes to the defendants' systems violates the injunction. This will result in extraordinary costs to the parties, as well as considerable judicial resources. In fact, the court would most likely be required to retain an expert in the field in order to determine if the new systems infringe on the patent. While the court understands that these reasons alone are not sufficient to deny an injunction to a patent holder, they are simply factors the court must consider when balancing the equities in this highly unusual case.

Moreover, the court notes that if the defendants continue to infringe the plaintiff's patents, the court will be more inclined to award enhanced damages for any post-verdict infringement. *See, e.g., Stryker Corp. v. Davol Inc.*, 234 F.3d 1252, 1259 (Fed.Cir.2000) (affirming district court's award of enhanced damages for post-verdict infringement as reasonable); *Corning Glass Works v. Sumitomo Electric U.S.A. Inc.*, 671 F.Supp. 1369, 1401, 5 U.S.P.Q.2d 1545 (S.D.N.Y.1987) ("To proceed [after an infringement determination] to manufacture and sell the same [infringing product] without changes designed to avoid infringement can only be construed as outright defiance or baseless optimism . . . [which entitles the patentee] to recover increased damages."). Thus, the plaintiff certainly will be compensated for any actions by the defendants in the absence of an injunction. Therefore, after consideration of all the factors discussed above, it appears that the balance of the hardships tips in favor of the defendants.

In sum, after consideration of all the arguments, the plaintiff's Motion for a Permanent Injunction is denied.

2. Motion to Enforce Judge Friedman's Injunction Order of February 26, 2003, and for Order to Show why Defendant eBay, Inc. Should Not be Held in Contempt for Facilitating Violations of Judge Friedman's Injunction Order of February 26, 2003.

In this Motion, the plaintiff alleges that defendant eBay has violated this court's February 26, 2003 injunction order by continuing to allow ReturnBuy and Jabil Global Services ("Jabil") to post items for sale on its website. Defendant eBay disputes that a show cause order is required, as ReturnBuy is no longer in business and the plaintiff has failed to show that Jabil is violating the injunction order or that eBay is inducing or aiding and abetting that violation.

On February 26, 2003, the court entered an injunction order against ReturnBuy, which was once a party to this action. In the order, the court stated that

> ReturnBuy further agrees and stipulates that it, its officers, agents, servants, employees and attorneys, and any person in active concert or participation with them who receive actual notice of this judgment are permanently enjoined from infringing the above claims of the '265 Patent by making, using, selling or offering for sale a computer-implemented service, system, and/or process(es) which facilitates the posting of items or goods for sale or auction through or by an electronic online market or auction, that also employs a digital imaging means and a textual description of the item or good for sale or auction, and any colorable variation thereof.
>
> Notwithstanding the foregoing, this injunction is subject to the separate License Agreement and Settlement Agreement entered into by and between MercExchange and ReturnBuy.
>
> Nothing in this Order shall be construed as affecting, in any way, the claims or defenses that are currently being

> litigated between eBay, Half.com and MercExchange in this case.

Judgment and Order, Dkt. 278 (Feb. 26, 2003). After the court issued this order, the plaintiff appealed the order based on the court's addition of the final sentence cited above. Upon motion to dismiss by the defendants, the Federal Circuit dismissed the appeal, holding that the plaintiff failed to show that there was a "serious, perhaps irreparable consequence or that the order can be effectually challenged only by immediate appeal." Dkt. 564, Ex. I, p. 3. The Federal Circuit noted that the plaintiff could always file a motion for contempt in the district court if it believed ReturnBuy violated the order. The plaintiff now seeks the court to enter a show cause order for eBay's violation of this injunction order.

The Fourth Circuit has held that

> [t]o establish civil contempt, each of the following elements must be shown by clear and convincing evidence: (1) the existence of a valid decree of which the alleged contemnor had actual or constructive knowledge; (2) . . . that the decree was in the movant's "favor"; (3) . . . that the alleged contemnor by its conduct violated the terms of the decree, and had knowledge (at least constructive knowledge) of such violations; and (4) . . . that [the] movant suffered harm as a result.

Ashcraft v. Conoco, Inc., 218 F.3d 288, 301 (4th Cir.2000); *see also In re General Motors Corp.*, 61 F.3d 256, 258 (4th Cir.1995) ("The burden is on the complainant to prove civil contempt by clear and convincing evidence."). In patent cases, a court must make two determinations before entering a finding of contempt. "The first is whether a contempt hearing is an appropriate forum in which to determine whether a redesigned device infringes, or whether the issue of infringement should be resolved in a separate infringement action. . . . [T]he second question . . . is whether the new

accused device infringes the claims of the patent." *Additive Controls & Measurement Sys., Inc. v. Flowdata, Inc.*, 154 F.3d 1345, 1349 (Fed.Cir.1998) (citing *KSM Fastening Sys., Inc. v. H.A. Jones Co.*, 776 F.2d 1522, 1530-32 (Fed.Cir. 1985)). However, it remains within the court's "broad discretion to determine how to best enforce its injunctive decrees." *Id.*

In this case, the plaintiff alleges that because all of ReturnBuy's assets, except for the license agreement with MercExchange, were sold to Jabil following ReturnBuy's dissolution in bankruptcy, and because Jabil continues to list items for sale under ReturnBuy's name on eBay's website, that it is in contempt of this court's order. Moreover, the plaintiff argues that eBay is also in contempt for permitting Jabil to continue to post items for sale on its website. However, the only evidence with respect to this before the court is (1) ReturnBuy's assets were sold to Jabil; (2) Jabil sold items under ReturnBuy's name following the entry of the injunction; (3) Jabil sold the items on the eBay website; and (4) following the jury's verdict in this case, no items are being sold under either ReturnBuy or Jabil's names on eBay. This evidence is a far cry from the clear and convincing evidence necessary for this court to issue a show cause order. The plaintiff has offered nothing to show that Jabil is utilizing the same infringing methods that ReturnBuy used. The first step in the Federal Circuit's test to determine contempt is to determine whether a redesigned product infringes the patent. "That decision turns on a comparison between the original infringing product and the redesigned device." *Id.* The plaintiff assumes that because Jabil is using many of ReturnBuy's assets and business practices that it is indeed infringing. Furthermore, the plaintiff assumes that eBay is somehow aiding and abetting this infringement. However, the court is not willing to make these assumptions at this time. Therefore, the plaintiff's Motion is denied.

3. Renewed Motion for Judgment as a Matter of Law.

In this Renewed Motion, the plaintiff seeks JMOL that the claims of the '176 and '265 patents are valid. Specifically, the plaintiff argues that the jury's verdict demonstrates that no reasonable jury could determine that (1) the '176 and '265 patents are invalid for failure to comply with the enablement or written description requirements of section 112; (2) the '176 patent is invalid due to anticipation or obviousness; or (3) the '265 patent is invalid due to anticipation or obviousness. The plaintiff contends that these issues should not be retried if the case is remanded to this court for another trial. The defendants on the other hand object to the renewed motion for JMOL, asserting that the court should enter JMOL in their favor regarding the invalidity of the patents.

Rule 50(b) states that if a verdict was returned, the court has three options when ruling on a renewed motion for JMOL. It can allow the judgment to stand, order a new trial, or direct entry of judgment as a matter of law. Fed.R.Civ.P. 50(b). In this case, the plaintiff has essentially reargued its opposition to the defendants' renewed motions for JMOL, which are discussed above. The court finds that there was substantial evidence presented by the defendants to contest the validity of the patents at issue. The jury found that this evidence was not clear and convincing. However, such a finding by this jury does not mean that no reasonable jury would have viewed the evidence in the same way. As such, this court will not direct the entry of JMOL, but rather allow the jury's verdict to stand. Therefore, the plaintiff's Motion is denied.

4. Motion for Prejudgment and Postjudgment Interest.

Next the plaintiff moves for prejudgment and postjudgment interest. The defendants do not object to the imposition of postjudgment interest pursuant to 28 U.S.C. § 1961(a). As such, the court grants the plaintiff's Motion for Postjudgment

Interest. The defendants do object to the plaintiff's Motion for Prejudgment Interest, specifically the interest rate and method of compounding requested by the plaintiff.

The award of prejudgment interest is permitted by 35 U.S.C. § 284. The Supreme Court interpreted this statute and held that "prejudgment interest should ordinarily be awarded . . . to ensure that the patent owner is placed in as good a position as he would have been in had the infringer entered into a reasonable royalty agreement." *General Motors Corp. v. Devex Corp.*, 461 U.S. 648, 655, 103 S.Ct. 2058, 76 L.Ed.2d 211 (1983); *accord Bio-Rad Labs., Inc. v. Nicolet Instrument Corp.*, 807 F.2d 964, 969 (Fed.Cir.1986). The Court reasoned that "[a]n award of interest from the time that the royalty payments would have been received merely serves to make the patent owner whole, since his damages consist not only of the value of the royalty payments but also of the foregone use of the money between the time of infringement and the date of the judgment." *Devex*, 461 U.S. at 655-56, 103 S.Ct. 2058. While prejudgment interest is ordinarily awarded, this court is aware that there may be circumstances where such an award is not appropriate. *Id.* at 657, 103 S.Ct. 2058. However, in this case, the court believes that there are no circumstances that indicate an award of prejudgment interest is not appropriate and will grant the plaintiff's Motion for Prejudgment Interest.

The next step is to determine the interest rate and compounding method to be used to compute the prejudgment interest. The plaintiff seeks prejudgment interest using prime rate compounded quarterly. The plaintiff provides no reason why prime rate should be used; however, it does suggest that because the defendants provide their financial data on a quarterly basis as required, compounding the interest quarterly is appropriate. The defendants, on the other hand, contend that the interest rate be no more than the one-year Federal Treasury rate, compounded annually. The defendants

argue that this rate is appropriate because prejudgment interest "is awarded to compensate for the delay in payment of the damages, and not to punish the infringer." *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389 (Fed.Cir.1983). Moreover, the defendants maintain that this is appropriate because the plaintiff failed to provide any evidence that it was forced to borrow money at any higher rate, citing *Laitram Corp. v. NEC Corp.*, 115 F.3d 947, 955 (Fed.Cir.1997). While the plaintiff disputes that it is required to provide any evidence, based on another Federal Circuit case, *see Uniroyal, Inc. v. Rudkin-Wiley Corp.*, 939 F.2d 1540, 1545 (Fed.Cir.1991), the court finds the *Laitram* case persuasive because of its more recent date.

In this case, the court will apply an interest rate equal to the one-year Federal Treasury rate, compounded quarterly. The plaintiff has offered no evidence, even after the defendants raised the issue, that it was forced to borrow money at a rate equal to or above the prime rate. Furthermore, because the defendants are required to provide financial data on a quarterly basis, compounding the interest quarterly will be a relatively simple process.

5. Motion for Post-Verdict and Postjudgment Accounting.

In this Motion, the plaintiff seeks post-verdict and post-judgment accounting, including: (1) a monthly accounting from April 1, 2003 through the date of this order of gross merchandise sales for fixed-price goods; (2) supplemental compensatory damages from April 1, 2003 through the date of this order based upon the jury's reasonable royalty rates; (3) a determination of liability for the defendants' post-judgment sales of infringing services prior to the effective date of any injunction this court might enter; and (4) enhancement of supplemental damages. The defendants object to this request, arguing three main points. First, the defendants argue that the plaintiff has waived the right for an accounting as it failed to raise it in the Final Pretrial Order.

The defendants cite *Lucent Tech., Inc. v. Newbridge Networks Corp.*, 168 F.Supp.2d 269, 273 (D.Del.2001) for support. Second, the defendants maintain that pursuant to 28 U.S.C. § 1292(c)(2), the court should not take action on the accounting issue until after any appeals of the case are completed. Finally, the defendants contend that there is no reasonable royalty rate to use as the verdict form did not specify what royalty rate the jury utilized in determining the damages awarded.

With respect to the defendants' first argument, the plaintiff has not waived its right to seek an accounting, as it made the request in the initial complaint and the first amended complaint. The cases cited by the parties make it clear that provided the defendants received notice that the plaintiff would seek an accounting, it does not matter if it is not in the Final Pretrial Order as opposed to the complaint. *See, e.g., Lucent,* 168 F.Supp.2d at 273 (barring the plaintiff from obtaining an accounting because it "did not request an accounting in the Final Joint Pretrial Order or in the Amended Complaint.").

The second and third arguments put forth by the defendants are more difficult to dismiss. Both of these arguments revolve around the complexity, expense and uncertainty surrounding the completion of an accounting. As stated above, the jury awarded the plaintiff more than it was asking in some circumstances, and less in others. Moreover, the verdict form did not include a question seeking the royalty rate used by the jury in determining the damage award. The defendants maintain that this uncertainty renders an accounting difficult, if not impossible. Given that this has the potential to create a litigation unto itself, the court will defer its ruling on this until after any appeals of this case are concluded. *See* 28 U.S.C. § 1292(c)(2) ("The United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction of an appeal from a judgment in a civil action for

patent infringement which . . . is final except for an accounting."); *see also McCullough v. Kammerer Corp.*, 331 U.S. 96, 98, 67 S.Ct. 1165, 91 L.Ed. 1365 (1947). The court notes that the plaintiff will not suffer any great harm from this decision as the court will certainly consider awarding enhanced damages for any post-verdict infringement following the result of any appeal. *See supra* section II.B.1.d. Accordingly, this issue will be removed from the active docket pending appeal of the case to the Federal Circuit. Following any such appeal, the parties are instructed to ask the court to return the matter to the active docket if necessary.

6. Motion for Enhanced Damages Under 35 U.S.C. § 284 and Attorney Fees Under 35 U.S.C. § 285.

In this motion, the plaintiff seeks enhanced damages based on the jury's finding of willful infringement. In addition, the plaintiff seeks the award of attorneys' fees. In response, the defendants claim that the court should enter judgment as a matter of law in their favor as there was insufficient evidence for a finding of willfulness. In the alternative, the defendants maintain that despite the finding of willfulness, enhanced damages and attorneys' fees are not warranted in this "close" case.

a. Enhanced Damages

"Upon a finding of willful infringement, a district court may, at its discretion, grant up to treble damages." *Odetics, Inc. v. Storage Tech. Corp.*, 185 F.3d 1259, 1274 (Fed.Cir. 1999) (citing 35 U.S.C. § 284). However, "while willful infringement may allow enhanced damages, such finding does not compel the district court to grant them. Instead, the decision to grant or deny enhanced damages remains firmly within the scope of the district court's reasoned discretion, informed by the totality of the circumstances." *Id.* (internal citations omitted). "The paramount determination in deciding to grant enhancement and the amount thereof is the egre-

giousness of the defendant's conduct based on all the facts and circumstances." *Read*, 970 F.2d at 826. In determining whether a particular case requires enhanced damages, the Federal Circuit has provided a number of factors a court should consider. These include: (1) whether the infringer deliberately copied the ideas or design of another; (2) whether the infringer, when he knew of the other's patent protection, investigated the scope of the patent and formed a good-faith belief that it was invalid or that it was not infringed; (3) the infringer's behavior as a party to the litigation; (4) the defendant's size and financial condition; (5) the closeness of the case; (6) the duration of the defendant's misconduct; (7) the remedial action by the defendant; (8) the defendant's motivation for harm; and (9) whether the defendant attempted to conceal its misconduct. *See id.* at 827. The plaintiff has alleged that many of these factors weigh in favor of enhancing the damages. The court will address each in turn.

(i) whether the infringer deliberately copied the ideas or design of another

The plaintiff alleges that the defendants, after receiving notice of the plaintiff's patents, copied the ideas contained therein. Specifically, the plaintiff argues that eBay's purchase of Half.com, PayPal, and the incorporation of the "Buy-It-Now" feature all contributes to the conclusion that the defendants were copying the ideas in the patents. The defendants maintain that their success did not arise from the use of anything contained in the plaintiff's patents. Moreover, the defendants argue that the patents offer no business or engineering guidance which the defendants could copy. This court agrees. While the jury found that there was insufficient evidence to find these patents invalid for lack of enablement, there was expert testimony describing the lack of source code and other features which would allow another to implement these patents. Moreover, eBay was using payment

processors long before it received notice of the '265 patent, despite the fact that the purchase of PayPal occurred following that time. Therefore, the court finds that this factor does not weigh in favor of enhancing the damages.

(ii) whether the infringer, when he knew of the other's patent protection, investigated the scope of the patent and formed a good-faith belief that it was invalid or that it was not infringed

With respect to the second factor, the court has fully addressed the issue of willfulness in the defendants' Motion for Judgment as a Matter of Law. *See supra* section II.A.1.a. Based on this same reasoning, the court finds that this factor weighs in favor of enhanced damages.

(iii) the infringer's behavior as a party to the litigation

The plaintiff spends almost 20 pages in its Motion detailing the defendants' "abusive and expense-enhancing litigation tactics." *See* Dkt. 574, pp. 7-24; *see also* Dkt. 594, pp. 11-17. In response, the defendants spend considerable time detailing the plaintiff's behavior during this litigation. *See* Dkt. 581, pp. 12-24. These detailed descriptions of the parties' actions in this case are certainly not necessary, as the court is all too familiar with the close to 600 documents filed in this case. This case was bitterly fought from day one. However, neither side comes to this stage in the case with perfectly clean hands. As such, the court will not use the conduct of either side as a basis to grant or deny the enhancement of damages.

(iv) the defendant's size and financial condition

The next factor the court must consider is the defendant's size and financial condition. The plaintiff argues that because defendant-eBay is a highly successful company, with first quarter 2003 profits of over $380 million, that trebling the damages is the only way the defendants would feel the punitive impact from their willful infringement. The defen-

dants maintain that reliance on the fact that eBay is a "deep pocket" is improper and that their size and financial condition should only be a minor consideration. *See Odetics*, 14 F.Supp.2d at 800. This court agrees. While the fact that eBay is such a large and wealthy corporation is certainly a factor in determining whether to enhance the damages, the court will only give it minor consideration when weighing the totality of circumstances.

(v) the closeness of the case

The plaintiff maintains that this case was not close, as the defendants were found to have infringed both patents and all invalidity defenses were rejected. Moreover, the fact that the jury found willfulness by clear and convincing evidence warrants a finding that the case was not close. The defendants, on the other hand, argue that this case was extremely close, as is indicated by the fact that the jury found that neither defendant indirectly infringed the '176 patent and that Half.com did not indirectly infringe the '265 patent. In addition, the fact that the court found that the '051 patent, the patent which comprised 75% of the damages sought by the plaintiff, invalid on summary judgment further supports the finding that the case was close. As this court held in the defendants' first Rule 50 Motion, whether or not there was sufficient evidence on willfulness was a close call and the court reserved the right to revisit the issue after the jury returned its verdict. Therefore, the court finds that the case was sufficiently close, a factor that weighs against the imposition of enhanced damages. *See generally Modine Mfg. Co. v. The Allen Group*, 917 F.2d 538, 543 (Fed.Cir.1990) (finding no abuse of discretion where district court refused to enhance damages because willfulness was "sufficiently close on the evidence," despite the fact that the jury had found willfulness by clear and convincing evidence).

(vi) the duration of the defendants' misconduct

The plaintiff asserts that enhanced damages are warranted because the "defendants' infringing conduct has lasted for two years and they have no intention of ceasing the infringement." However, as support for this factor, the plaintiff again relies on the fact that the defendants did not obtain an opinion of counsel.[14] The court notes that this litigation has been going on for almost two years and that the plaintiff never filed a motion for a preliminary injunction to prevent the defendants from continuing the infringement during the pendency of this litigation. The court will not allow the plaintiff to now use that fact to its advantage. Therefore, the court finds that this factor does not weigh in favor of enhanced damages.

(vii) the remedial action by the defendants

With respect to this factor, the plaintiff claims that the defendants made a deliberate decision not to undertake any remedial actions by not designing around the patent as they claim they could have easily done at a cost of less than $15,000. The plaintiff claims that the defendants' refusal to take such remedial action is a further indication of bad faith and the need for a punitive component to the damages award. The court agrees. The defendants stressed the fact that they could have designed around the patents with only a few man-hours and very little expense, but failed to do so. As such, this factor weighs in favor of enhanced damages.

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[14] In addition, the plaintiff implies that because the defendants have indicated that they will appeal the verdict, they should be punished for this continued effort. The court finds this argument incredible, especially given the fact that all through this litigation, particularly after the court found the '051 patent invalid, the plaintiff indicated its intention to appeal this case. In fact, the plaintiff has already made one unsuccessful appeal in this case. The fact that the defendants intend to file an appeal is completely irrelevant to the court's determination of enhanced damages.

(viii) the defendants' motivation for harm

The plaintiff did not allege that the defendants' motivation was to harm it or Mr. Woolston, nor is there any evidence of such. Therefore, the court will not consider this factor.

(ix) whether the defendants attempted to conceal their misconduct

Once again, there has been no indication that the defendants attempted to conceal their misconduct, nor has the plaintiff made such an allegation. Therefore, the court will likewise not consider this factor.

In sum, after careful review of all the factors for and against enhancing damages in this case, the court finds that there is an insufficient basis to make such an award. Therefore, the plaintiff's Motion with respect to enhanced damages is denied.

b. Attorneys' Fees

In this portion of the Motion, the plaintiff also seeks attorneys' fees pursuant to 35 U.S.C. § 285. This section provides that in exceptional cases, the court may award reasonable attorney fees to the prevailing party. 35 U.S.C. § 285. "The trial judge's discretion in the award of attorney fees permits the judge to weigh intangible as well as tangible factors: the degree of culpability of the infringer, the closeness of the question, litigation behavior, and any other factors whereby fee shifting may serve as an instrument of justice." *National Presto Indus., Inc. v. West Bend Co.*, 76 F.3d 1185, 1197 (Fed.Cir.1996). The court notes that many of the factors cited are the same as those discussed above with respect to enhanced damages. Therefore, for the reasons set forth above, the court finds that an award of attorneys' fees is not warranted in this case. Accordingly, the plaintiff's Motion is denied.

7. Motion for Entry of Final Judgment.

The plaintiff seeks entry of final judgment, based on the jury's verdict and resolution of the post-trial motions. While the court agrees that the entry of final judgment is required, it does not grant the final judgment sought by the plaintiff. Rather, the court enters final judgment consistent with the jury's verdict and the rulings on the above post-trial motions. Accordingly, the Clerk is directed to enter judgment for the plaintiff in the amount of $29.5 million. This consists of $10.5 million for eBay's direct infringement of the '265 patent; $14.5 million for Half.com's direct infringement of the '265 patent; and $4.5 million for Half.com's direct infringement of the '176 patent. Moreover, this judgment is to be entered with prejudgment interest in the amount of the one-year Federal Treasury rate, compounded quarterly, and postjudgment interest at the standard rate.

III. Conclusion

For the reasons discussed above, the court makes the following rulings: (1) Half.com's Renewed Motion for Judgment as a Matter of Law and Motion for a New Trial on the '176 Patent is *DENIED*; (2) eBay and Half.com's Renewed Motion for Judgment as a Matter of Law and Motion for a New Trial on the '265 Patent is *DENIED*; and (3) eBay and Half.com's Renewed Motion to Strike Testimony of Plaintiff's Damages Experts, Motion for New Trial, or Motion for Judgment as a Matter of Law is *DENIED in part* and *GRANTED in part*; (4) the plaintiff's Motion for Entry of a Permanent Injunction Order is *DENIED*; (5) the plaintiff's Motion to Enforce Judge Friedman's Injunction Order of February 26, 2003, and for Order to Show why Defendant eBay, Inc. Should Not be Held in Contempt for Facilitating Violations of Judge Friedman's Injunction Order of February 26, 2003 is *DENIED*; (6) the plaintiff's Renewed Motion for Judgment as a Matter of Law is *DENIED*; (7) the plaintiff's Motion for Prejudgment and Postjudgment Interest is

GRANTED, with the exception of the interest rate used; (8) the plaintiff's Motion for Post-Verdict and Postjudgment Accounting is *DEFERRED* pending appeal, and the Clerk is *INSTRUCTED* to remove this Motion from the court's active docket; (9) the plaintiff's Motion for Enhanced Damages Under 35 U.S.C. § 284 and Attorney Fees Under 35 U.S.C. § 285 is *DENIED*; and (10) the plaintiff's Motion for Entry of Final Judgment is *GRANTED in part* and *DENIED in part*.

The Clerk is *REQUESTED* to send a copy of this Order to counsel of record.

It is so *ORDERED*.

APPENDIX C

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

[Filed May 11, 2005]

No. 03-1600, -1616

MERCEXCHANGE, L.L.C.,
Plaintiff-Cross Appellant,

v.

eBAY, INC. and HALF.COM, INC.,
Defendants-Appellants.

Appeals from the United States District Court for the Eastern District of Virginia in case no. 2:01-CV-736, Judge Jerome B. Friedman

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ORDER

Defendants-Appeallants have moved for a stay of the mandate pending filing of a petition for a writ of certiorari in the Supreme Court pursuant to Fed. R. App. P. 41(d)(2)(A). Plaintiff-Cross-Appellant MercExchange, L.L.C.'s ("MercExchange") has filed a brief in opposition to the motion.

Upon consideration thereof,

IT IS HEREBY ORDERED THAT:

The motion of Defendants-Appeallants for a stay of the mandate is GRANTED.

It is so ORDERED.

Date: May 11, 2005

/s/ Jan Horbaly/Lp
Circuit

APPENDIX D

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

No. 03-1600, -1616

MERCEXCHANGE, L.L.C.,
Plaintiff-Cross Appellant,

v.

eBAY, INC. and HALF.COM, INC.,
Defendants-Appellants.

ORDER

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

[Filed Apr 26, 2005]

ORDER

A combined petition for panel rehearing and for rehearing en banc having been filed by the APPELLANTS,* and the petition for rehearing having been referred to the panel that heard the appeal, and thereafter the petition for rehearing en banc having been referred to the circuit judges who are in regular active service,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for panel rehearing be, and the same hereby is, DENIED and it is further

ORDERED that the petition for rehearing en banc be, and the same hereby is, DENIED.

The mandate of the court will issue on May 3, 2005.

FOR THE COURT,

/s/ Jan Horbaly
JAN HORBALY
Clerk

Dated: April 26, 2005

cc: Jeffrey G. Randall
Scott Robertson

MERCEXCHANGE V EBAY, 03-1600, -1616
(DCT—2:01-CV-736)

* An amici curiae brief was filed by Dell, et al.

Note: Pursuant to Fed. Cir. R. 47.6, this order is not citable as precedent. It is a public record.